

NEW ZEALAND AND THE OIL CRISIS --
AN EXAMINATION OF FOREIGN POLICY REACTIONS.

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ABSTRACT

There already exists a body of literature that relates to the reactions of small states as compared with the reactions of larger states. The small-state theories maintain that, when subjected to pressure, small states change their policies more quickly than larger states. One of the basic aims of this study is to test the validity of the existing small-state theories against the actual reactions during a specific situation.

The major part of the study involves a detailed examination of New Zealand's foreign policy reactions towards the Middle East since the outbreak of the 4th Arab-Israeli War. Research indicates that New Zealand altered its Middle Eastern policy as a result of the oil crisis. New Zealand has shifted from its traditional pro-Israeli position to a more neutral attitude towards the Middle East conflict. It appears, then, that New Zealand reacted in very much the manner one would expect from the small-state theories.

To be valid, however, the small-state theories should also be able to account for the reactions of other countries to the same set of variables. A comparison of the 'before and after' positions of twenty-five other countries indicated that, contrary to the small-state theories, there was no strong correlation between the size of a country and its vulnerability to the Arab oil-pressure. However, there may well have been a significant, positive correlation between a high oil share of primary energy requirements and vulnerability to oil-pressure. My research also suggests that there was an even more significant, positive correlation between a high level of imported Arab oil and vulnerability to Arab oil-pressure.

As a result of these findings, I have formulated an alternative model to account for reactions to the Arab oil-crisis. I believe one must consider the oil crisis in terms of a bargaining game. The alternative model is based on two closely related hypotheses. The first suggests that with an increasing dependence upon Arab oil there is a greater possibility of a larger shift in policy when subjected to pressure from the Arab oil-producers. This is a result of the strong bargaining position from which the Arab bloc can negotiate. The allied hypothesis maintains that the lower the dependence on Arab oil, the less likelihood there is of a large shift in policy. The country under pressure in this situation has a greater freedom of choice as a result of the weaker Arab bargaining position.

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INTRODUCTION

The subject of this dissertation is 'New Zealand and the oil crisis - an examination of foreign policy reactions.' The study examines New Zealand's foreign policy reactions towards the Middle East situation, especially since the outbreak of the 4th Arab-Israeli war and the ensuing oil crisis. I will seek to establish whether or not New Zealand's foreign policy was influenced by the oil crisis. I will then match New Zealand's reactions against small-state theory. As a further test of the small-state theory I will examine the reactions of some other selected states to the same situation. The basic aim of the study, then, will be to test the validity of the existent small-state theory against the actual reactions during a specific situation, namely, the international oil crisis.

This raises the problem of definitions. There are almost as many different definitions of a small state as there are small-state theorists. 1. However, for the purpose of this study, I will adopt David Vital's definition of a small state. This definition states that "the small power... is one which is neither a 'pawn', in the sense that its policy is one predominantly determined by others for purposes extrinsic to it; nor a protégé or client or satellite, in the sense that it is not materially free to enter into definable relationships with more than one of the primary powers.... It is an autonomous political entity and ... its contingent attributes are subject to visible and rapid variation. ... (It) is one which is free to reverse such political ties as it may have when its intrinsic interests so dictate, ... but it obviously differs from the primary power in its ability to sustain the effort to induce

change in the structure of international relations." 2.

The use of the word crisis also presents some definitional problems. The tighter definitions maintain that a crisis decision is a response to a high threat to values, either immediate or long range, with little time for decision under conditions of surprise. 3. Alternatively, looser definitions see a crisis as merely some kind of boundary or turning point. 4. Whereas some theorists maintain that, by definition, a crisis is a short time concept, I do not think it inconceivable to define a crisis as a time of difficulty or danger over a period of time. For the purposes of this study, an international crisis will be defined as a set of rapidly unfolding events which raise the impact of destabilizing forces in the general international system. It is in this sense that the term 'the oil crisis' will be used. The oil crisis will be taken to mean the restriction of production by most of the Arab oil-producing states (with the notable exception of Iraq) and the increase in the price of oil in the last quarter of 1973 as a result of the quadrupling of the return to the producer states, together with the repercussions of these two events.

The dissertation will concentrate on foreign policy reactions to the oil crisis. Definitions of foreign policy abound, 5, but I will use the definition of foreign policy as the art by which a government ascertains the state's rights, obligations, interests, and responsibilities in international relations, and makes decisions in order to protect those rights, observe those obligations, promote those interests, and discharge those responsibilities.

Several considerations often underlie theoretical

works. One of these considerations is that some recognizable pattern of repeatable or characteristic behaviour does occur within the international system. If one is trying to establish the wider significance of any event then one must be able to recognize generalized patterns. While each and every situation may be unique when all its properties are considered, one must be prepared to establish certain similarities in certain situations. Man would be unable to cope with his daily existence if he did not treat most new situations as comparable to some situations he has met or learned about in the past. For purposes of evaluation and action, all humans categorize events according to a limited number of properties and ignore the rest. A second underlying theme is that international patterns of behaviour are related, in ways that can be specified, to the characteristics of the entities participating and to the functions they perform. These two themes are the pillars upon which most of the theory on the foreign policy behaviour of small states is built.

One of the most challenging of recent fields of speculation has been the foreign policy behaviour of small states. The categorization of states according to size has long been part of world politics. Recently, however, the concept of size has received an increased amount of attention as a factor affecting foreign policy. As a result there has been a renewed interest in the foreign policy of small states. 6. From reading the literature on small states it appears that there are almost as many different definitions of a small state as there are theorists. However, it is possible to abstract a general model of small states behaviour in foreign affairs. 7.

Based on the defining characteristics usually one or more of

- 1) Small land area
- 2) Small total population
- 3) Small total GNP (or other measure of total productive capacity), and

4) A low level of military capabilities small states are traditionally depicted as exhibiting certain foreign policy behaviour patterns when compared to large states. These are:

(a) low levels of overall participation in world affairs;

(b) high levels of activity in intergovernmental organizations (IGO's);

(c) high levels of support for international legal norms;

(d) avoidance of the use of force as a technique of statecraft;

(e) avoidance of behaviour and policies which tend to alienate the more powerful states in the system;

(f) a narrow functional and geographical range of concern in foreign policy activities;

(g) frequent utilization of moral and normative positions or international issues. These characteristics are by no means universally accepted, 8, but are the results of a general overview of the small state theorists.

At a more specific level, the various hypotheses expounded by the small state theorists can be subdivided into three categories. The first of these categories relates to the size differential of small states as compared to larger states. The general tone of these

'size vulnerability' hypotheses is that small states are more vulnerable to crisis, primarily because of their size. "Smallness, however elusive and hard to define, is one of the key factors in (a crisis) situation because it does seem that to be at the low end of the scale of nations means a vulnerability to crises and pressures that larger countries can shrug off or overcome." 9. Vital, one of the more prominent small-state theorists, reinforces this hypothesis when he states that "a small state is more vulnerable to pressure, more likely to give way under stress, more limited in respect of the political options open to it and subject to a tighter connection between domestic and external affairs." 10.

Closely related to the 'size vulnerability' hypotheses are the 'economic vulnerability' hypotheses. While this group of hypotheses does not disregard physical size as an important factor in the foreign policy of small states, the emphasis is placed more on economic rather than physical vulnerability. The general tone of these hypotheses is that small states are, usually, not only economically dependent upon the larger, industrialized states but are also less able to withstand external pressures on their economies from, for example, a shortage of international reserves, or the terms of an economic agreement. It is argued that small states have a greater reliance on foreign trade, a greater concentration of their exports in a limited number of markets, and a lesser diversification in the range of commodities exported, and that this means small states are generally more specialized and vulnerable than their larger counterparts. 11.

As Vital puts it, "the vulnerability of the small power to pressure which exploits its heavy dependence on foreign trade and on foreign sources of strategic supplies is an inescapable consequence of limited economic resources." 12.

Most small-state theorists also recognize the presence of various other factors (such as the level of social development, geographical location, the surrounding international environment, the cohesion of the population, and the degree of internal support given the government) but they usually regard either size or economic vulnerability (or a combination of both) as the key factors accounting for the foreign policy behaviour of small states.

It is fairly clear, then, that the bulk of the literature emphasizes the vulnerability of small states to pressure, and that small states pursue policies which try to avoid such pressure. Given this vulnerability, it follows that, in times of pressure, small states will capitulate more readily than larger states. It is this point which will be under scrutiny in the following research. The theory suggests that as small states have certain characteristics, these same characteristics determine the reactions of small states. Assuming this to be correct, then, it seems perfectly reasonable to expect New Zealand's foreign policy reactions to the oil crisis to be accounted for by the small-state theory. This will be the major part of the study. To be valid, however, the small-state theory model must also account for the reactions of other small (and, by implication, large) states to the same set of variables - the outbreak of the 4th Arab-Israeli war and the ensuing oil crisis.

If the foreign policy reactions of other states to the same situation are in accordance with the small-state model then added weight will be lent to that model. If, however, some discrepancies occur then the model must either be adjusted or reconstructed.

- 1) See R.O. Keohane, 'Lilliputian Dilemmas: Small states in International Politics', in International Organization, vol.24, 1969, p.296; R.P. Barston, 'The External Relations of Small States', in A. Schou and A. Brundtland, Small States in International Relations, (Stockholm, Almqvist and Wiksell, 1971), p.40; D. Vital, The Inequality of States, (Oxford, Clarendon Press, 1967), p.8.
- 2) D. Vital, 'The Analysis of Small Power Politics', in Schou and Brundtland, op.cit., pp. 19-20.
- 3) See G. Paige, 'The Korean Decision', in J.N. Rosenau, International Politics and Foreign Policy, (New York, The Free Press, 1969).
- 4) See K.E. Boulding, and A. Wiener and H. Kahn, as quoted by C.F. Hermann, 'International Crisis as a situational variable', in J.N. Rosenau, op.cit., p.412.
- 5) See J. Frankel, The Making of Foreign Policy, (New York, Oxford University Press, 1968); W. Wallace, Foreign Policy and the Political Process, (London, Macmillan Press Ltd., 1971); and J.N. Rosenau, op.cit.
- 6) Recent books focusing on the foreign policy behaviour of small states include, D. Vital, The Inequality of States, (Oxford, Clarendon Press, 1967); B. Benedict (ed.), Problems of Smaller Territories, (London, Athlone Press, 1967); A. Andrew, Defense by

Other Means, (Ontario, Deyell Ltd., 1970); A. Schou and A. Brundtland, (eds.), Small States in International Relations, (Stockholm, Almqvist and Wiksell, 1971); D. Vital; The Survival of Small States, (London, Oxford University Press, 1971), and R. Barston (ed), The Other Powers, (London, George Allen and Unwin, 1973).

7) M. East abstracts this general model of small state theory in 'Size and Foreign Policy', in World Politics, July, 1973, vol.25, no.4, p.557 .

8) See East, op.cit., pp. 556-576, for criticisms of some of these characteristics .

9) D.P.J. Wood, 'The Smaller Territories: some Political Considerations', in B. Benedict, Problems of Smaller Territories, (London, The Athlone Press, University of London, 1967), p. 32.

10) D. Vital, The Inequality of States, (Oxford, Clarendon Press, 1967), p.3.

11) See R. Barston, 'The External Relations of Small States', in Schou and Brundtland, op.cit.

12) D. Vital, The Inequality of States, p.112.

CHAPTER 1

THE POLITICAL AND ECONOMIC BACKGROUND

(I) THE POLITICAL BACKGROUND

After the second World War New Zealanders looked to a post-war era, in which the United Nations would secure and preserve world peace. This was a hope cherished by Peter Fraser, the New Zealand Prime Minister from 1940 to 1949. Although he was an early opponent of the League of Nations, which he considered a league of victors, Fraser later became an ardent champion of the League. When, during the second World War, consideration was being given to the formation of a new international institution Fraser had his own ideas on its structure. While the UN did not totally match Fraser's concept, New Zealand still gave the UN its support. Since that time New Zealand has played a very active role in the UN.

There is no need to recall the events of the second World War in this study. It is important, however, to recall some of the immediate post-war feelings in order to place New Zealand's foreign policy reactions into perspective. During the second World War, Hitler pursued a fanatical anti-Semitic policy which had the overall effect of eliminating some six million Jews. 1. Naturally enough, this policy was abhorrent to the rest of the world and, after Germany's defeat, there was a considerable worldwide feeling in favour of those Jews who had managed to escape Hitler's wrath.

New Zealand's Prime Minister Fraser certainly had no doubts that the creation of a Jewish State was essential. Along with some of the other Allied leaders he had visited the German concentration camps and this had confirmed his own strong feelings of sympathy towards

the Jews.

When Britain relinquished her mandate in Palestine the problem was handed over to the UN to solve. The United Nations set up a UN Special Committee on Palestine (UNSCOP) composed of representatives of eleven member states. 2. The Committee was unanimous in its recommendation of independence for Palestine but divided upon the structure required. The majority recommended that there should be a political partition, with a Jewish state and an Arab state, within an economic union; the minority favoured a single federal state. The Jewish Agency accepted the partition plan as the 'indispensable minimum'; the Arab governments and the Arab Higher Executive rejected it. 3.

New Zealand took the view that the UN must have regard for the means of implementation of its plan and make provision for the consequences which would inevitably follow partition. As the proposals put to the Assembly did not contain any such provisions, New Zealand abstained on the vote in committee. 4. Subsequently, however, in the General Assembly, New Zealand decided to support partition, which was approved on 29 November, 1947, by 33 votes to 13, with 10 abstentions. The two-thirds majority included the United States and the Soviet Union, but not Britain. 5. The Assembly's decision was then accepted by the Jews but denounced by the Arabs.

New Zealand's next action came at the UN special session in March, 1948. At this session the United States tried to backtrack from its earlier position of support for the partition plan. "Truman did have a passing moment of indecision, in March 1948, when the

gravity of the situation in Europe and the outcry raised by the American Ambassadors in the Arab countries moved him to renounce the partition plan and propose international control over Palestine. This was also due in part to the fears for the safety of the new state entertained by friends of the Jews, foreseeing the imminent Arab attack".

6. The American proposal would have seen Palestine administered by the UN as a trust territory. This suggestion brought a strong protest from New Zealand's representative, Sir Carl Berendsen. He dismissed the idea of trusteeship and the resolution proposing it. He argued that if partition was right in November 1947, then it was still right. "When Berendsen sat down, the American trusteeship idea was dead". 7.

On 15 May, 1948, Israel was invaded by armies from Egypt, Jordan, Syria, Iraq, and Lebanon. In the fighting Israel won some of the land allotted to the Arab State under the UN partition plan of 1947, but lost territory on the west bank of the River Jordan to Jordan, and the Gaza strip to Egypt. New Zealand expressed regret at the outbreak of war and Prime Minister Fraser, speaking to the General Assembly, "appealed to Arabs and Jews to accept the existing situation, and to negotiate in an impartial spirit uninfluenced by past animosities, the alternative to which, he said, could lead only to the destruction of both peoples". 8. On 29 January, 1949, the New Zealand Government granted de facto recognition to the Government of Israel. Mr. Fraser said that the grant of recognition by the New Zealand Government was a logical development of New Zealand's support for the General Assembly's

resolution of November, 1947, recommending the establishment of a Jewish State in Palestine. 9.

New Zealand's next notable UN vote was over the issue of Israel's admission to membership of the UN. A resolution calling for Israel's membership of the UN was presented to the General Assembly on 11 May, 1949. New Zealand supported Israeli membership along with the US and the Soviet Union, with Britain abstaining. 10. Following approval of the application by the Security Council on 4 March, Israel was admitted to the UN by the General Assembly on 11 May, 1949.

New Zealand's main Middle Eastern activity between 1949 and 1956 was as a contributor to the United Nations Relief and Works Agency for Palestine Refugees in the Near East, (UNRWA). However, New Zealand's aid contribution to the Middle East consisted of little more than token aid to Palestinian refugees and a number of UN Observers for trouble spots in the region.

In 1956 Suez Crisis saw New Zealand involved in the Middle East again. It is not necessary, here, to go into the full details of the Suez Crisis. 11. However, the immediate cause was the American announcement, on 19 July, that they were no longer offering large-scale economic aid to Egypt for the Aswan Dam Project. Egypt's President Nasser had attached great importance to this project and on 26 July he took his own measures. He nationalized the Universal Maritime Suez Canal Company, the international company responsible for operating the Suez Canal. He claimed that the revenues received from operating the Suez Canal would pay the expenses of constructing the Aswan Dam. This Egyptian control over one of the world's most important waterways caused alarm among the larger world powers. Once peaceful efforts to 'rectify' the situation had failed, the

use of force became an obvious alternative.

On 29 October, 1956, Israeli forces attacked Egypt, who had refused to allow Israeli ships to use the canal since 1951. It is now generally thought that there was some degree of collusion between Israel, France, and Britain before the attack. 12. In any event, the reaction of the US Government was quite different from that of the British and French. The US reaction was to condemn Israel as the aggressor and to insist on Israeli withdrawal; the British and French forces attacked Egypt. The British and French justified their actions on the grounds that it was essential to ensure there should not be a military vacuum in the Suez Canal area pending the creation of the United Nations force. By the end of November, United Nations forces had started to arrive, and in early December the British and French agreed to withdraw their troops by the end of the year. The Egyptian authorities refused to have the canal cleared until the last British and French troops had left. It was then cleared, under the auspices of the UN, and reopened for traffic on 9 April 1957. On 24 April, Egypt made a declaration that it would maintain free and uninterrupted navigation of the Canal for all nations. It did so as regards Israel until February 1959.

At this point of time New Zealand's two major allies were Britain and the United States, and the success of New Zealand's foreign policy was greatly dependent on harmonious relations between these two powers. Although British by descent and strongly tied to the 'Mother Country' by both trade and sentiment, New Zealanders were nevertheless keenly aware of the strategic importance of the United States.

When faced with the dilemma of an open divergence between British and American policies, New Zealand chose to follow the dictates of tradition, sentiment and a somewhat distorted perception of its own vital interests. 13.

When the crisis broke in July, New Zealand's Prime Minister, Sidney Holland, was in the United States on his way back to New Zealand from attending a Commonwealth Prime Ministers' Conference in London. His immediate reaction was to assure British Prime Minister Eden that New Zealand approved the British and French military preparations, and would stand by Britain "through thick and thin". 14.

Holland informed the House of Representatives that his justification for this policy was that the Suez Canal was vital to Britain, and Britain was vital to New Zealand; and, if necessary therefore, as he hinted, New Zealand was prepared to support Britain with force. 15. However, when Israel invaded Egypt on 29 October, Holland's mood was one of instinctive disapproval. He suggested that Israel's action had increased Arab-Israeli tension to dangerous proportions, that acts of planned retaliation were self-defeating, and that aggression could not be condoned. 16. When the split between the British and American policies became apparent the New Zealand Government found itself in a dilemma.

In the weeks that followed, Holland was less than wholehearted in his support for the British policy. He gave his support to the British motives but carefully avoided discussing the British methods. 17. Yet despite its own misgivings, New Zealand maintained its traditional position and stood by Britain in the United Nations, supported at times by only France, Israel and Australia.

On 2 November the UN General Assembly adopted

a resolution (a similar resolution had been vetoed by Britain and France in the Security Council) urging the Israelis and the Egyptians to agree to an immediate cease-fire, and that all other nations refrain from intervention by force. This resolution was adopted by 64 votes to 5 (Australia, France, Israel, New Zealand, United Kingdom). On 4 November, New Zealand abstained from a resolution setting up a United Nations Force which was adopted by 57 votes to 0, with 19 abstentions. 18. Following that resolution was a second one calling for an immediate cease-fire, which New Zealand, Australia, France, Britain and Israel alone opposed. Three days later, on 7 November, another resolution calling for a withdrawal of Israeli, British, and French forces was passed by 65 votes to 1 (Israel), with 10 abstentions (including Australia, France, New Zealand, and the United Kingdom). A further resolution calling for similar measures was adopted on 24 November with New Zealand, again in the minority of five, opposing the resolution. On 3 December Britain finally yielded to Assembly pressure and announced that she would begin to withdraw her forces from the Canal Zone immediately.

While the effects of New Zealand's support for Britain were not particularly severe, 19, New Zealand was obviously relieved to have the whole affair concluded. New Zealand's support for Britain (and, indirectly, for Israel) during the Suez Crisis certainly changed the focus of New Zealand's foreign policy. No longer did New Zealand adopt the 'where Britain goes, we go' attitude. In addition the Middle East ceased to be an area of great interest for New Zealand's foreign policy makers, and, during the ten or so years until the 3rd Arab-Israeli war in 1967, New Zealand adopted a low profile in the area.

New Zealand, however, did not abandon its tacit support for the State of Israel.

The hostility between the Arab states and Israel which had caused war in 1948 and 1956, intensified once again from 1965 onwards as a result of raids by Arab guerilla groups across the borders of Israel. With the establishment, in February 1966, of a Baathist government in Syria which made no secret of its support for the most prominent of the guerilla groups, Al Fatah, the raids on Israel became heavier and more ambitious in scope. The pressure had mounted considerably by 1967. On 14 May, 1967, Egypt put its armed forces on the alert and moved army formations towards the border 'in support of Syria'. As they reached the border Nasser ordered the UN forces to leave Sinai and his forces took up their battle positions. Then, on 22 May, Nasser blocked the Gulf of Aqaba, thereby cutting off the Israeli port of Eilat. Then, in the face of the Arab military preparations, Israel launched, on 5 June, a 'pre-emptive' attack on the Arab states. Israel inflicted quick and severe damage on the Arabs.

At the request of the Soviet Union, an emergency session of the UN General Assembly opened on 17 June and lasted until 18 September. From 19 to 30 June, sixty-nine delegations participated in the General Assembly debate on the situation in the Middle East.

The New Zealand spokesman, F.H. Corner, spent most of his speech attacking the Soviet Union which he said had a "heavy responsibility for this conflict". 20. He said that the basic condition for a return to stability was the acceptance of the existence of Israel.

He also outlined Israel's responsibility to withdraw from the occupied territories, but only in the context of a settlement which would guarantee security to both Israel and its neighbours. He did not make it clear exactly which territories Israel should withdraw from, and made no specific reference to the Palestinian refugees, although he did briefly mention Israel's responsibility to prevent the creation of a new refugee problem. 21.

The Assembly failed to adopt any of the four resolutions proposed by the Soviet Union, Yugoslavia, Albania, and the Latin American states. These four resolutions all either condemned Israel and/or called for an Israeli withdrawal from 'occupied' territories. New Zealand reaffirmed its pro-Israeli position and, along with Israel, the United Kingdom, the United States, and Australia, voted against all four resolutions. By this stage, under the leadership of General de Gaulle, France had moved away from a policy of support for Israel in favour of a more pro-Arab stance, and voted in favour of the Yugoslavian resolution but abstained from the other three resolutions. Two resolutions calling upon Israel to desist from measures in Jerusalem prejudicial to an eventual determination of its status were, however, passed. New Zealand voted in favour of these resolutions.

After further months of strenuous diplomacy inside and outside the United Nations, the Security Council adopted, on 22 November, a British compromise resolution calling for an Israeli withdrawal from occupied territories; an end to the Arab state of war with Israel; respect for the territorial integrity of all states in the area; a just settlement of the Palestinian refugee problem; and

freedom of navigation in the international waterways.22. New Zealand has also adopted this resolution as the basis for any future settlement. This has not, however, provided a clear cut basis for the solution of the Middle East conflict. In fact, both sides in the conflict have given SC 242 their own interpretation, and peace has not eventuated. New Zealand, while supporting the use of SC 242 to resolve the conflict, has tended to lean towards the Israeli interpretation of SC 242.

New Zealand's position at this stage was still one of maintaining a low profile in the area. Trade between New Zealand and the Middle East was rather low-key also, although in 1964 a trade commissioner opened an office in Athens and included in his responsibilities all Middle East countries as far as Iran. Governmental contacts were very limited at this stage, although the Israeli ambassador in Canberra was accredited to New Zealand in 1967.

The period from 1967 to 1973 saw a situation of 'no peace, no war' existing in the Middle East. Israel retained most of the territories occupied in 1967 and the Arab states remained in a state of disarray following their defeat in the 1967 conflict. Meanwhile the Palestinian refugees remained homeless, and became even more desperate. Aware that their people were unable to prevail over the Israelis when employing the tactics of conventional guerilla warfare, the new generation of Palestinians shifted to tactics of terror. Israeli people and their supporters everywhere became the targets of Palestinian vengeance. For example, Black September, an organization of ultra-militant Palestinians, executed the Israeli athletes at Munich, murdered three Western diplomats at Khartoum in March, 1973, hijacked a Japan Air Lines Jumbo Jet with 145

people aboard in July, 1973, and have carried out a varied programme of similar operations since they first gained notoriety with the assassination of the Jordanian Prime Minister, Wasfi Tal, at Cairo in November, 1971. Not surprisingly, Israel has not just accepted these events; Israel has adopted a strategy of retaliatory terror. What has resulted is a cycle of terror and counter-terror.²³

New Zealand is well out of the Middle Eastern fire-line, and had few direct dealings with the main belligerent states during this period. Rather than becoming involved in an area where it could have little, if any, influence, New Zealand maintained its low profile on Middle Eastern matters. Even so, sympathies certainly seemed to lie with the Israelis. The press, radio, and television more often than not reflected pro-Israeli positions. While it is true that much of New Zealand's news material came from international news agencies which operated out of Israel, the passive acceptance of this pro-Israeli leaning was in keeping with many of the rather unflattering attitudes towards the Arabs - witness the car sticker 'Save fuel, burn an Arab'.

New Zealand was starting to become more interested in the Middle East as a trading area by the early 1970's. It soon became evident that the Middle East was far too large an area for New Zealand's trade ambassador in Athens to cope with. In 1970, therefore, responsibility for the countries bordering on the Gulf was transferred to the trade commissioner in New Delhi, and since that time both trade commissioners have undertaken a number of surveys in their respective areas.²⁴ Private commercial interest was also on the increase during this period and producer

board representatives and other New Zealand exporters visited the area. In particular a Manufacturers' Federation trade mission went there in 1970.

Diplomatic activity was very limited, but Egypt did accredit its Ambassador in Canberra to cover New Zealand. This happened in 1970, three years after the accreditation of the Israeli Ambassador to New Zealand.

Another interesting point to note here concerns New Zealand's domestic political scene, and particularly the New Zealand Labour Party. In Israel it has been the Mapai, or Israeli Labour Party, in coalition with a varying array of smaller parties, which has formed the government ever since independence, and which has occupied the most important positions in the government, including the premiership and the ministries of foreign affairs and of defence. 25. The New Zealand Labour Party has traditional links with the Labour Party in Israel and most Labour Party members who have travelled overseas in recent years have included in their itineraries a visit to Israel. In addition, the rather small Jewish community in New Zealand has traditionally given its support to the New Zealand Labour Party. Mr. Kirk admitted the close link between the New Zealand Labour Party and the Israeli Labour Party during the 1974 parliamentary debate on the Estimates of Foreign Affairs expenditure. 26.

That, then, is the political background in which New Zealand's attitudes towards the Middle East and the oil crisis must be considered. New Zealand supported the creation of the Jewish state of Israel; supported Israeli membership of the United Nations; aligned itself with Israel, Australia, France, and the United Kingdom during the 1956 Suez Crisis; and tacitly supported Israel in the 1967 war.

After 1956 New Zealand adopted a low profile in Middle East matters, although, both in the UN and at home, it maintained its pro-Israeli sympathies. The Middle East was of little real interest to New Zealand trade by early 1973, and New Zealand had no diplomatic representation in the area, although both Israel and Egypt had Ambassadors accredited to New Zealand. On the domestic political scene the New Zealand Labour Party, with its strong traditional links with the ruling Israeli Labour Party, was elected to office in December, 1972.

(II) ECONOMIC BACKGROUND

The supply of energy is a fundamental part of the way of life in a developed country such as New Zealand, where the ability and freedom to satisfy desires for material goods and bodily comforts are enjoyed. Energy not only provides a home with heat and light, but as a resource it is a basic input in all of the goods and services which are used, either as the energy component or as a raw material. Because of its natural advantages New Zealand has grown accustomed to plentiful supplies of energy at relatively cheap prices and in convenient forms. Over the years a particular type of energy market has developed in New Zealand - a market with some unique characteristics which in turn create their own unique problems.

Electricity's role is now well established in New Zealand. The post-war period has seen significant changes in the pattern of New Zealand's energy consumption. In the period between 1954 and 1974 electricity virtually doubled its share of the New Zealand energy market (Table 1). Householders have shown an increasing tendency

to turn to the comfort and cleanliness of electricity for their heating and cooking requirements and the domestic sector now accounts for about 47% of electricity generated. 27. This increasing importance of electricity in the development of New Zealand's energy resources in the past two decades reflects the suitability of many areas of New Zealand for hydro-electric development. The many rivers

Table 1

Relative Share of the Energy Market Occupied by Coal,
Hydro-Electricity, Petroleum and Natural Gas

Primary Energy	1924	1934	1944	1954	1964	1974
Coal	93%	72%	66%	47%	35%	17%
Hydro-electricity	1%	4%	7%	10%	15%	18%
Petroleum	6%	24%	27%	42%	50%	62%
Natural Gas	-	-	-	-	-	3%

Source: The Coal Industry of New Zealand, (Wellington, Government White Paper, 1974).

have ensured a constant supply of naturally replenished fuel, while numerous lakes have been available for storage. It is not surprising, then, with these resources that New Zealand has developed an extensive hydro-electric system, and the Government has been able to make electricity available on a nationwide basis. However, New Zealand's hydro resources are finite and inevitably all of the hydro potential that is acceptable for development will eventually be utilized. This may well necessitate the need to turn to thermal generation which so far has only been exploited to a very limited extent. 28.

As Table 1 indicates, in the early days of New

Zealand's development coal was the major energy resource. Coal maintained its predominance right up to 1950, when it met some 50% of New Zealand's consumer energy market. From this point on, it started to decline and now provides only about 17%. There were several reasons for this. Firstly, in New Zealand coal production has traditionally been labour-intensive so that production costs have risen in line with wage rates. In addition coal has suffered because of fluctuating levels of reliability of supply. In the past the coal mine workers were much more militant than today, and until 1951 the United Mine Workers of New Zealand was one of the country's most powerful unions. The militancy of the coal miners' unions was curbed to a large degree following the 1951 watersiders' strike, which many of the mine workers supported. As a result the number of working days lost declined sharply but the damage to the coal industry had already been done by the history of unreliable supplies. Secondly, transportation costs have also risen greatly in the last twenty years and coal is a bulky commodity. Thirdly, public attitudes have changed in two ways. The trend in demand has been for cleaner, more convenient energy forms for the home. In addition, the growth in concern for the environment has meant that people are now resisting the use of coal for industry or large scale systems in their towns and cities. Recently, also technological advances appeared to make coal obsolete as a fuel for some major uses. This was particularly evident in the transport sector where coal was the major fuel for shipping and railways. The loss of these markets has had an enormous effect on coal consumption. 29. Meanwhile the use of oil in New Zealand has increased markedly in recent years (see Table 1). Oil and oil products provide by far

the largest share of New Zealand's energy market (see Table 1). Petroleum has been responsible for a large proportion of the declining role of coal in the New Zealand energy market over the last fifty years. Over this period the coal industry has lost its railway and shipping transport markets completely to petroleum and natural heating, industrial and gas making load to petroleum and natural gas; it has also lost part of its heating and cooking load to electricity. Growth in demand for coal has been confined to steel making, electricity generation and the heating of public buildings. 30.

Oil has several major advantages over coal as an energy source including those of easier handling, greater convenience, and, more recently, pollution abatement. In addition except during, and for a short period after, the second World War, the supply of petroleum has been assured. Costs have also played a big part in the transfer to the use of oil. Even as late as September 1973, the posted price of Arabian light crude had risen by only 56 percent above its January 1955 level. 31. When one considers that the consumer price index in New Zealand rose by over twice that amount (116 percent). 32, during the same period, it is not difficult to appreciate that petroleum had become a very competitively priced commodity by the early 1970's.

In any consideration of New Zealand's position vis-à-vis oil, three additional points must be noted. These are, (a) the distribution of consumption of petroleum products;

(b) the levels of indigenous supplies;

(c) the levels and sources of imports of crude oil and refined petroleum products.

The distribution of consumption of petroleum products

is an important factor. These figures are important because they can provide a rough indicator of how 'essential' the use of oil in a given country is. Much of the oil used in transportation is for private motoring, and much of the residential use is for space heating and lighting. In a period of crisis, these are the type of uses on which savings could be made, whereas the use of oil as an input in the productive apparatus, either for energy or as a raw material will only be curtailed as a last resort, because of the implications for output and employment. The industrial and commercial sector takes about 40 percent of New Zealand's consumer energy requirements, and petroleum supplies approximately one third of this figure (See Table 2).

Table 2

NEW ZEALAND'S ENERGY REQUIREMENTS

	Total	of which Petroleum	Coal	Electricity
Industrial & Commercial	38%	33½%	28%	38½%
Transport	47%	almost 100%	nil	nil
Households	15%	9½%	15%	75½%

SOURCE: Based on figures used by Hogg, op.cit., pp.90-92.

Households consume about 16 percent of the consumer energy requirements in New Zealand, but oil supplies only about 10 percent of this demand. By far the most outstanding use of petroleum, however, is in the transport sector. The transport sector takes nearly half of New Zealand's consumer energy requirements. This market is supplied almost wholly by petroleum products with slightly over half being motor spirits and the remainder split between aviation fuels, bunker fuels and diesel. This high concentration on

the transport sector is reflected by the fact that New Zealand, with one of the highest per capita car ownership figures, ranks highly in a list of motor spirit consumers (Table 3). When this high motor spirit usage is combined

Table 3

CONSUMPTION OF MOTOR SPIRIT (including aviation gasoline)

COUNTRY	Gallons per head - 1971
United States	373.8
Canada	289.4
Australia	186.1
Puerto Rico	176.5
New Zealand	149.1
Switzerland	111.2
Sweden	103.6
Venezuela	88.2
West Germany	85.1
Britain	80.4
France	77.6
Norway	75.4
Netherlands	73.3
Italy	53.7
Japan	46.6
South Africa	42.4

SOURCE: Oil and Australia 1973, (Petroleum Information Bureau (Australia) 1973), p.40.

with New Zealand's lack of oil fired stations, and comparatively low industrialization the result is that New Zealand has the highest motor spirit requirement as a proportion of its total petroleum usage of any country (Table 4).

Although petroleum provides such a large share of New Zealand's primary energy, there is very little indigenous oil available at present. Like many other countries since the second World War, New Zealand has come to depend upon imported oil. In 1972 New Zealand's hydrocarbon production was only 1.1 million barrels of condensate and 12.5 thousand million cubic feet of natural

gas. 33. This necessitates the arrival of an 80,000 to 100,000 ton tanker at the Marsden Point refinery every four days or so. The Marsden Point refinery produces

Table 4

MOTOR SPIRIT USAGE AS A PROPORTION OF TOTAL

PETROLEUM USAGE

	%
New Zealand	46
United States	40
Venezuela	35
Australia	35
South Africa	33
Canada	32
Switzerland	19
Puerto Rico	18
United Kingdom	16
West Germany	15
France	15
Norway	13
Italy	12
Sweden	11
Netherlands	10
Japan	9

SOURCE: Energy in New Zealand, p.92.

about 80 percent of New Zealand's oil needs. About 41 percent of its annual output is gasoline, 21 percent is diesel, 35 percent is light and heavy fuel oils and 3 percent is bitumen. The remaining 20 percent of New Zealand's refined requirements are imported. 34.

In a situation where most of New Zealand's oil is imported it is necessary to establish the sources of those imports. New Zealand has a very heavy dependence upon

Table 5

ORIGIN OF NEW ZEALAND'S OIL IMPORTS

Crude Petroleum	1972	1973
	%	%
Brunei	6.4	1.3
Iran	19.2	15.9
Kuwait	67.2	82.8
Saudi Arabia	3.2	Nil

SOURCE: Mr Freer, in The Radiator, 2 April, 1974.

Middle Eastern oil (see Table 5). It is very significant that over 80 percent of New Zealand's imports of crude oil come from Kuwait, one of the more extreme Arab countries.

To summarize, petroleum supplies about 60 percent of New Zealand's primary energy, and of this more than 80 percent comes from Arab countries. It is in this context that one must view the oil crisis and New Zealand's reactions to the oil crisis.

1) Six million was the estimate of Adolf Eichmann, who was in charge of the 'final solution to the Jewish problem', quoted in P. Calvocoressi, Nuremberg, (London, Chatto and Windus, 1947), p. 59. G. Reitlinger, The Final Solution (London, Vallentine, Mitchell & Co. Ltd., 1953), questions the generally accepted figure of six million and proposes a figure of approximately five million.

2) Members were Australia, Canada, Czechoslovakia, Guatemala, India, Iran, Netherlands, Peru, Sweden, Uruguay and Yugoslavia.

3) The UNSCOP's proposals are summarized in W. Laqueur (ed), The Israel-Arab Reader, (Pelican, 1970), pp. 138-153.

4) B. Brown, New Zealand Foreign Policy in Retrospect, (Wellington, NZIIA, 1970), p. 7.

5) Voting was, in favour: Australia, Belgium, Bolivia, Brazil, Byelorussian SSR, Canada, Costa Rica, Czechoslovakia, Denmark, Dominican Republic, Ecuador, France, Guatemala, Haiti, Iceland, Liberia, Luxemburg, The Netherlands, New Zealand, Nicaragua, Norway, Panama, Paraguay, Peru, Philippines, Poland, Sweden, Ukrainian SSR, Union of South Africa, U.S.S.R., United States of America, Uruguay, Venezuela; against: Afghanistan, Cuba, Egypt, Greece, India, Iran, Iraq, Lebanon, Pakistan, Saudi Arabia, Syria, Turkey,

Yemen: abstained: Argentina, Chile, China, Colombia, El Salvador, Ethiopia, Honduras, Mexico, United Kingdom, Yugoslavia. See S.Hadawi (ed), United Nations Resolutions on Palestine 1947-1966, (Beirut, Institute for Palestine Studies, 1967), p.31.

- 6) M.Rodinson, Israel and the Arabs, (Pelican, 1970), p.62.
- 7) B.Brown, op.cit., p.8.
- 8) Appendices to the Journals of the House of Representatives (A.J.H.R.) A.1, 1949, p.31.
- 9) Loc.cit.
- 10) Voting was, in favour: Argentina, Australia, Bolivia, Byelorussian SSR, Canada, Chile, China, Colombia, Costa Rica, Cuba, Czechoslovakia, Dominican Republic, Ecuador, El Salvador, France, Guatemala, Haiti, Honduras, Iceland, Liberia, Luxemburg, Mexico, New Zealand, Nicaragua, Norway, Panama, Paraguay, Peru, Philippines, Poland, Ukrainian SSR, Union of South Africa, USSR, United States of America, Uruguay, Venezuela, Yugoslavia; against: Afghanistan, Burma, Egypt, Ethiopia, India, Iran, Iraq, Lebanon, Pakistan, Saudi Arabia, Syria, Yemen; abstained: Belgium, Brazil, Denmark, El Salvador, Greece, Siam, Sweden, Turkey, United Kingdom.
- 11) See H.Thomas, The Suez Affair, (Pelican, 1970).
- 12) See ibid., pp.95-8.
- 13) In 1955 two-thirds of New Zealand's exports were still going to the United Kingdom, though (like the rest of her exports) virtually none by way of the Suez Canal.
- 14) T.R.Reese, Australia, New Zealand and the United States, (London, Oxford University Press, 1969), p.188.
- 15) See R.N.Kennaway, New Zealand Foreign Policy, 1951-1971, (Wellington, Hicks Smith and Sons Ltd. 1972), p.48.
- 16) See ibid., p.49.
- 17) See ibid., p.50.

- 18) Abstentions were recorded by Albania, Australia, Austria, Bulgaria, Byelorussian SSR, Czechoslovakia, Egypt, France, Hungary, Israel, Laos, New Zealand, Poland, Portugal, Romania, Ukrainian SSR, Union of South Africa, USSR, United Kingdom.
- 19) Kennaway, op.cit., p.50.
- 20) United Nations Monthly Chronicle, July 1967, vol.4, no.7, p.62.
- 21) ibid., p.63.
- 22) This resolution, SC242, is reprinted in full in the appendix.
- 23) See J.B. Wolf, 'A Mideast profile: the cycle of terror and counter-terror', in International Perspectives, November/December, 1973, pp.27-32.
- 24) New Zealand Foreign Affairs Review, vol.24, no. 2, February 1974, p.18.
- 25) See D.A.Rustow, Middle Eastern Political Systems, (Englewood Cliffs, Prentice-Hall Inc., 1971), pp.76-79.
- 26) Reported in The Press, 5 July, 1974.
- 27) See P.W.Blakeley, 'Patterns of use of electrical energy in New Zealand', in Energy in New Zealand (Auckland, University of Auckland publication, 1974), pp.66-73.
- 28) See R.J.Hogg, 'Use of Petroleum and Coal in New Zealand', in Energy in New Zealand, (Auckland, University of Auckland, 1974), p.93.
- 29) Hogg, op.cit., p.90.
- 30) Hogg, op.cit., p.90.
- 31) See Hogg, op.cit., p.91.
- 32) New Zealand Monthly Abstract of Statistics, January 1955, and September 1973.
- 33) The Role of Research and Development in New Zealand's Energy Economy, (Publication by Department of Scientific and

Industrial Research, March 1974), p.19 :

.31 .

. 34). National Business Review, January 21, 1974.

CHAPTER 2

THE OIL CRISIS

When, on 17 October, 1973, after numerous muffled threats, the Arab leaders decided to use their abundant supplies of oil as a political weapon in their war against Israel, the 'politics of oil' became a reality. Since then oil has dominated most discussions of international politics. There was nothing new about the Arab declaration - similar mutterings had been heard on several occasions previously. What was new, however, was the level of solidarity achieved by the Arab bloc. The co-operation among the oil exporting countries was truly remarkable, particularly in view of the deep socio-political divisions among them.

What has happened to bring about such an immense change, seemingly so unexpectedly, and certainly so quickly? Behind the morass of recent political and economic developments lie several significant facts - the current rates of world oil production, the location of proven oil reserves, and the relative costs of obtaining those reserves. In the industrial world there are two dominant oil-producing regions - North America and the Middle East - which, together produced approximately 60 percent of the total world oil production in 1973 (see Table 6). The location of the world's oil reserves is even more concentrated, with nearly 50 percent of reserves in the Middle East (See Table 7). The oil reserves of Saudi Arabia alone are enormous in comparison with those of North America. In addition, while US production is still the highest of any single nation in the world, the actual cost of producing Middle Eastern oil is only a fraction of the production costs of US oil. Whereas Saudi Arabian oil costs 4.6 cents a barrel and Iranian oil

Table 6

WORLD OIL PRODUCTION 1972 and 1973

AREA	Million Tons		Percentage 1973 share of total
	1972	1973	
North America	645.8	646.7	22.8
Caribbean	188.8	197.4	7.0
South America	41.5	47.4	1.7
WESTERN HEMISPHERE	876.1	891.5	31.5
Western Europe	22.2	22.6	0.7
Middle East	895.4	1045.2	36.8
Africa	282.4	291.5	10.3
South East Asia	65.7	80.5	2.9
USSR	394.0	421.0	14.8
Eastern Europe & China	48.8	57.2	2.0
Other Eastern Hemisphere	26.7	27.9	1.0
EASTERN HEMISPHERE	1735.2	1945.9	68.5
WORLD (excl. USSR, E.EUROPE & CHINA)	2168.5	2359.2	83.2
WORLD	2611.3	2837.4	100.0

SOURCE: BP statistical review of the world oil industry -
1973, p.6.

Table 7

PROVEN RESERVES OF OIL - in billions of barrels

Saudi Arabia	450
Russia	75
Kuwait	73
Iran	65
USA	37
Libya	30
Iraq	29
Abu Dhabi	21
China	20
Nigeria	15

SOURCE: The Economist, 2 March, 1974

costs 12 cents a barrel, it costs 75 cents a barrel to produce American oil. 1. North American oil has only continued to be produced because of government concern over secure supplies and the resulting protection of the domestic industry. For many years oil was a cheap fuel everywhere and during the 'fifties and 'sixties oil consumption moved up rapidly, both in terms of absolute volume and as a proportion of total energy consumed. 2. However, the oil-exporting nations, despite continuing efforts to develop a

collective policy through the Organization of Petroleum Exporting Countries (OPEC), 3, had little ability to control international oil prices to their advantage even as late as the 3rd Arab-Israeli conflict of 1967; sufficient marginal productive capacity was still available in the United States to offset any threat of supply curtailment by the oil-exporting nations.

Throughout the post-war years, however, a change was steadily taking place. Even with protection of the US price, proven reserves of US oil did not keep pace with that country's growth in oil consumption. By 1970, indeed, US oil output had reached a peak and from then on, increases in demand had to be met entirely by imports, including the first significant inflow from the Middle East. By 1970, the Middle East had the only surplus supply of oil available and even the relatively small curtailment of exports from Libya in that year had sufficient impact to start the upward move in world oil prices. Indeed, one Middle East nation, namely Saudi Arabia, was then supplying enough of world exports to be the effective determiner of both prices and supply. Events leading to the changed oil situation were gradual. But when the watershed year, 1970, was reached, a new era had been entered.

In 1970, the states belonging to OPEC fulfilled an ambition as old as the organization itself: for the first time, they forced the foreign oil companies operating on their soil to concede increases in the tax reference (or posted) prices for oil. 4. There were signs that, far from this being the end of a process, it could be only a beginning. The advantage in bargaining on the oil trade vital to Europe and Japan seemed to shift sharply to the producing countries and away from the buyers, thus ending

the period of falling prices which had lasted since the first closure of the Suez Canal in 1956. In 1971, the Teheran and Tripoli agreements provided for steadily rising returns to the Middle Eastern oil-producing countries up to 1975. In January 1972, OPEC, having asserted that the effective devaluation of the dollar had reduced the real value of those benefits, succeeded in extracting a compensatory 8.49% increase in the dollar 'posted price'. One tendency which became apparent during 1972 was for producing countries and, to a growing extent, consuming countries as well, to enter into government-to-government agreements, directly or through national oil companies. Another tendency was for the largest producing countries to work slowly but steadily towards greater involvement in the downstream sectors of the oil industry.

The industrial world's first real taste of an effective Arab oil squeeze came in 1973. The first serious initiative for the employment of oil as an instrument of political pressure came from Saudi Arabia. As early as April 1973, King Faisal sent his oil Minister, Sheikh Yamani to Washington with the message that unless the United States changed its pro-Israeli stance then Saudi Arabia would not significantly expand its current oil production. King Faisal reiterated this message on several occasions. 5. Even so, there was no clear indication as to when Saudi Arabia would actively begin carrying out its threat. The first sign of Arab action, rather than threats, came from Libya in early September, 1973. It was then that Libya's Colonel Gaddafi suddenly nationalized all foreign oil companies operating in his parched North African country - thereby threatening to set off an oil war between the petroleum-rich Arab world and the thirsty industrialized West. Gaddafi's action assumes greater significance if

one takes into consideration the close familial relationship that exists between the Arab bloc. The example of a successful manoeuvre against the West by Gaddaffi would be a source of considerable encouragement for the other 'brother' Arab oil-producers, who were more directly in conflict with Israel, to introduce oil into their bargaining strategy.

It should be noted at this point that by mid-1973 most, if not all, of the Arab oil exporting countries had reached a position of economic strength where they could, if necessary, use their oil as a political lever without unduly damaging their economies. This was due to the recent shift in bargaining power from the buyers to the sellers of oil, itself the outcome of a tightening supply situation in the face of continually rising demand for crude oil.

When the war broke out, Kuwait took the initiative of calling for a conference of Arab oil producing countries to determine how Arab oil could best be employed in the service of the Arab cause. After a one-day meeting of the oil ministers of the member states of the Organization of Arab Petroleum Exporting Countries (OAPEC), 7, a resolution was taken to use oil as a direct weapon in the war against Israel. The OAPEC countries (with the exception of Iraq), 8, decided "that each Arab oil-exporting country immediately cut its oil production by a recurrent monthly rate of no less than 5 percent to be initially counted on the virtual production of September and thenceforth on the last production figure until such a time as the international community compels Israel to relinquish our occupied territories or until the production of every individual country reaches the point where its economy does not permit of any further reduction without detriment to its national

and Arab obligations". 9. It was decided that countries which supported the Arabs actively and effectively, or that took significant measures against Israel to compel it to withdraw from occupied territories, would be exempted from the cuts and would continue to receive their full share of Arab oil supplies at the rate prevailing before the cuts were introduced. Provision was also made for extra reductions in supplies to unfriendly countries in proportion to their support of and co-operation with Israel. The 17 October, 1973, resolution recommended "that the United States be subjected to the most severe cut proportionately with the quantities of crude oil, oil derivatives, and hydrocarbons that it imports from every exporting country (and) that this progressive reduction leads to the halt of oil supplies to the United States from every individual country party to the resolution". 10. A total embargo on oil supplies to the US was not enforced until 20 October, following President Nixon's request to Congress for US\$2.2 billion for military assistance to Israel. Within a few days all the signatory countries had cut back production by between 5 and 10 percent, as well as imposing a total embargo on oil shipments to the US and Holland. In the case of the Dutch, the decision was ostensibly taken because of Holland's pro-Israeli attitude during the war, including its allowing NATO bases within its territory to be used for the airlift of US military supplies to Israel.

A second meeting of Arab oil ministers was held in Kuwait on 4-5 November at which it was decided to boost the reduction in Arab oil production to an immediate 25 percent below the September level. Again Iraq dissociated itself from these measures. It was also decided at this meeting that a further reduction, amounting to 5 percent of

the November output, would follow in December provided that such a reduction should not affect the share that any friendly state was importing from any Arab exporting country during the first nine months of 1973.

The Arab oil weapon was used selectively and countries were classified into three categories: (1) hostile, which were subjected to the embargo; (2) friendly, which involved exemption or most-favoured status; and (3) neutral, which involved non-exemption but non-embargoed status. Output was first reduced by the across-the-board cut and then by the amounts allocated to the most favoured countries. What was left was then divided among the neutral countries. Conditions for a country to get on the most favoured list involved fulfilling some, or all of the following:

- 1) breaking off diplomatic relations with Israel;
- 2) applying economic sanctions against Israel;
- 3) affording military assistance to the Arab states. 11.

Several minor concessions were made to some countries who made the effort to comply with some of these demands during November and December. A meeting of Arab oil ministers held in Kuwait on 24 and 25 December decided to raise the level of Arab oil production by 10 percent with effect from 1 January, 1974, thereby reducing the overall cutback in Arab oil exports from its December rate of 25 percent to 15 percent, calculated on the basis of September 1973 production. The embargo on exports to the US and Holland was maintained.

A summit meeting at Algiers, from 13 to 14 February showed the first major signs of a rift among the Arab oil producers. At the summit, Egypt and Saudi Arabia were in

favour of lifting the US oil embargo while Algeria and Syria wanted to retain it as a lever on the US for a settlement on the Syrian-Israeli front. Then, on 18 March, 1974, Sheikh Yamani announced from Vienna that a meeting of the Arab oil Ministers had decided to end the oil supply embargo on the US, apparently in recognition of a change in Washington's Middle East policy. Syria and Libya dissociated themselves from this move and again Iraq took no part in the meeting. Holland, however, remained embargoed. It was not until 10 July, 1974, that this situation changed. On that date a meeting of Arab oil Ministers decided to lift the embargo on oil shipments to Holland which was the only country still under a full embargo.

In addition to this manipulation of supplies the OPEC members were also manipulating the price of oil supplied by them (see Table 8). As has been noted, the oil producers

Table 8.

OIL PRICE INCREASES - 1973-US\$/barrel .

	1973 1 Jan	1973 15 Oct	1973 16 Oct	1974 1 Jan
Arabian Light				
Host Government Take	1.50	1.76	3.03	7.00
Posted Price	2.59	3.00	5.11	11.65

SOURCE: Chandler, The New Energy Prospect, p.9.

had been successful in gradually increasing the price of oil since the 1971 Teheran and Tripoli agreements. Even as late as 1 January, 1973, the posted price of Arabian Light crude oil, which is regarded as the marker price for Middle East crude, was only US\$2.59 a barrel. This figure had risen to US\$3.00 a barrel by early October, 1973. Until 16 October, 1973, some restraint on price rises, even if rapidly eroding because of the producer-countries' bargaining power in a situation of narrowing supply/demand

balance, had been imposed by industry bargaining, as had consistency in the price relationship of different crudes.

12. However, on 16 October, 1973, the OPEC countries brought to an end price negotiations with the oil companies by the unilateral declaration of a 70 percent increase in posted price. This raised the posted price to US\$5.11 a barrel. Then, at the end of December, 1973, a further 130 percent increase in posted price and host government 'take' was announced, to take effect from 1 January, 1974. This raised the posted price to US\$11.65 a barrel.

After the rapid increases in the posted price in the last quarter of 1973, the OPEC oil Ministers froze the 1974 price despite recommendations for a price increase by the OPEC Economic Commission, which bases its proposals solely on economic considerations, whereas the Ministers are also swayed by political factors. 13. Then, at a meeting in Vienna on 15 December, 1974, the OPEC countries fixed the price of crude oil for the first nine months of 1975. 14. The new, uniform price structure is based on a price of US\$10.46 a barrel for Saudi Arabian light crude, as from 1 January, 1975. The OPEC oil Ministers have agreed that the new uniform price will not be increased to offset inflation during the first nine months of 1975.

1) These costs are quoted by C.Rand in his article 'The Arabian Fantasy', in Harper's Magazine, January, 1974, pp.42-54.

2) See BP Statistical review of the world oil industry - 1973, pp.8-9.

3) OPEC consists of Abu Dhabi, Iran, Iraq, Kuwait, Qatar, Saudi Arabia, Algeria, Libya, Nigeria, Venezuela, and Indonesia. Their exports accounted for more than 85 percent of the world oil trade in 1973.

- 4) See Z.Mikdash, 'Co-operation among oil exporting countries with special reference to Arab countries: a political economy analysis', in International Organization, vol.28, no.1, Winter,1974, pp.1-30.
- 5) Especially in an interview which appeared in the 10 September,1973, issue of Newsweek.
- 6) See P.Vatikiotis, Conflict in the Middle East, (London, George Allen and Unwin Ltd., 1971), pp.8-9 and p.20 for an explanation of the development of the Arab familial relationship.
- 7) OAPEC members are Abu Dhabi, Algeria, Bahrein, Egypt, Iraq, Kuwait, Libya, Qatar, Saudi Arabia, and Syria. Oman and Tunisia have applied for membership.
- 8) Iraq publicly dissociated itself from the decision and criticized the Arab oil embargo and cutback measures as counter-productive in that they tended to penalize friend and foe alike, and proposed that the Arab oil states concerned should follow its example of nationalizing the oil assets of US and Dutch companies. See F.Itayim, 'Arab oil-the political dimension', in the Journal of Palestine Studies no.11, 1974, p.90.
- 9) Quoted from the Arab communiqué, printed in Survival, January/February, 1974, pp.38-39.
- 10) Loc.cit.
- 11) Itayim, op.cit.,pp.84-97.
- 12) See G.Chandler, President, Institute of Petroleum U.K., The New Energy Prospect, (Shell Oil Co.Publication, 1974), p.2.
- 13) The Press (Christchurch), 2 September, 1974.
- 14) The Press (Christchurch), 16 December, 1974.
- 15) Loc.cit.

CHAPTER 3

NEW ZEALAND'S REACTIONS TO THE OIL CRISIS

To talk of a New Zealand foreign policy, as if there was a single policy which could be easily defined or described, is rather unrealistic. Instead, there are many complicating factors which influence the formulation of a foreign policy decision. While it is true that most countries can define the general nature of their foreign policy, it is harder to be more specific. It is, however, easier and more realistic to talk of foreign policy objectives. New Zealand, like many other countries, has many foreign policy objectives, but they can be classified under three headings - security and defence objectives; prosperity and economic welfare objectives; and idealistic and identity objectives. 1. These objectives can, and often do, overlap; a government hopes that policies designed to further one set of objectives will promote others also.

I - SECURITY AND DEFENCE OBJECTIVES

Although by no means watertight distinctions, it is possible to classify security threats into three categories:

- (1) a direct threat;
- (2) a threat to one's regional security; and
- (3) an indirect threat

There has certainly been no direct threat to New Zealand's security as a result of the 4th Arab-Israeli conflict or the ensuing oil crisis.

The highly unusual circumstances of New Zealand's political, economic and geographic environment have hindered the development of regional identity in the sense defined by theorists elsewhere. 2. However, whether one considers

New Zealand's region (if, indeed, it belongs to one) as being either Asia or the Pacific, there has been no real threat to regional security as a result of the 4th Arab-Israeli conflict or the oil crisis.

It is only in the third category, that of the indirect threat, that New Zealand's security could possibly be thought of as having been threatened. An indirect threat occurs when there is a conflict which threatens the international environment, and which therefore may involve an otherwise non-involved nation. Oil was a weapon employed by the Arab nations in an attempt to secure a political settlement to the Middle East conflict. The use of oil as a weapon has not, as yet, solved the Middle East conflict. The conflict remains as volatile as ever and, if it erupted again, could very easily threaten the international, rather than just the Middle Eastern environment. A renewed outbreak may involve the superpowers, could possibly involve the use of nuclear weapons, and could conceivably spark off a third World War. However, these are very generalized threats, are not perceived as being very imminent, and therefore have not been very influential upon New Zealand's foreign policy makers.

II - ECONOMIC WELFARE AND PROSPERITY OBJECTIVES

Most governments are usually concerned to ensure the economic welfare and prosperity of their communities. New Zealand is no exception, and concern with the level of prosperity has played an important part in determining New Zealand's reactions to the oil crisis. The threats to the pursuit of economic welfare and prosperity objectives can be divided into (a) direct and

(b) indirect threats.

The oil crisis certainly posed some considerable threats to New Zealand's prosperity and economic welfare. Two main direct threats can be distinguished. The first was the threat to New Zealand's supplies of Middle Eastern oil and the associated price increases. The second direct threat relates to the effects the oil crisis had on New Zealand's economy.

The Arab oil producers decided to use oil as a weapon on 17 October, 1973. For New Zealand, which is more than 80 percent dependent upon Arab oil, such a decision was of considerable importance. Naturally enough, then, the events in the Middle East were followed with interest by New Zealand's decision-makers. On 15 October, 1973, New Zealand oil industry spokesmen were warning the New Zealand public against panicking over a possible oil shortage. At this time, the Marsden Point oil refinery was preparing for its biennial, three-week maintenance shutdown from 26 October to 16 November. While it is true that especially high supplies of refined petroleum products were imported in the last quarter of 1973, these were mainly to cover the 200,000 tons of output which were to be lost as a result of the Marsden Point shutdown, and not to build up reserves. National oil stocks at this stage were said to represent about six weeks supply. The price of premium grade petrol in New Zealand was 48 cents per gallon when the oil crisis broke.

On 18 October, New Zealand's Prime Minister, Mr. Kirk, thought that New Zealand might not be affected by the Arab decision to cut oil production, because New Zealand had not "taken sides (in the war) nor are we likely to". 3. The oil industry was not so sure, however, and was concerned about the confused Middle East situation and felt unable to make a clear assessment of its effects on New Zealand's oil

market.

On 13 November, New Zealand's Deputy Prime Minister, Mr Watt, disclosed that the Cabinet Economic Committee was watching the oil situation daily. The oil crisis had not yet had much impact and Mr Watt was still hopeful that New Zealand would not be adversely affected by the situation overseas. However, just two days later, the New Zealand Government was beginning to show more concern. On 15 November, Prime Minister Kirk announced that the Australian Government had agreed to the importation into New Zealand of supplies of crude oil. Then, on 16 November, the Government warned New Zealanders to look more closely at the use they made of oil products, and at how they could avoid wasteful practices. Although at this stage the Government was reviewing contingency plans in case of possible shortages, Energy Resources Minister Freer said that New Zealand had not yet been affected by cuts in supplies from the Arab states. Further indications of Governmental concern came later in November when Prime Minister Kirk announced that his Government was pressing the oil companies to ensure that New Zealand continued to get its normal supplies of petrol. Mr Kirk maintained that he had had no indication that the producing countries had singled out New Zealand for cuts in supplies. He also stated that New Zealand's first priority was to get supplies, and then to worry about the price.

At his press conference on 27 November, Prime Minister Kirk repeated that the supply situation was normal and that New Zealand would continue to get shipments after those already en route. However, he added that the supplies might not be the full quantities and appealed for a voluntary saving of 5 percent in oil use. At his press conference on

3 December, Mr Kirk again appealed to people to save all the petrol and oil they could. Mr Kirk then outlined the first steps taken to impose oil curbs. The measures announced were the imposition of an immediate 50 m.p.h. speed limit on all roads, including motorways; the immediate cessation of all oil company promotional advertising; limiting ships' bunkering to 1973 levels; the immediate cessation of all oil-generated electricity supply except for testing purposes; changes in the public passenger services regulations to allow for 'pooling'; the power for service stations to refuse sales to anyone suspected of hoarding, and the introduction of 'glide time' (staggered working hours) in the public service.

It seems that by this stage New Zealand was beginning to feel the effects of the oil crisis. Conservation of supplies had become vital, and speculation was rife as to how such conservation would be enforced. The most obvious measures were either by a substantial price rise or by rationing. Rationing had been declared by Mr Kirk as a last measure only, and it soon became clear that the price of petroleum products would rise, both to compensate the oil companies for the increased prices of the oil they were now paying, and to attempt to cut domestic consumption.

Then, on 17 December, after the last Cabinet meeting of the year, a note of optimism was sounded when the Acting Prime Minister, Mr Watt, said that no further measures to restrict petrol use were likely for five weeks. He did, however, emphasize that people still had to keep trying to save petrol, and noted that one or two measures may still need to be taken but not immediately. The Government, it seems, was wooing the public, obviously believing that -

under true Labour philosophy - everyone should have a Summer

holiday before facing the realities of an international crisis. When, on 24 December, the Arab oil producers announced a 10 percent production increase, it appeared that the Government's policy not to rush into emergency measures might have been vindicated.

However, the voluntary savings were inadequate and by early January, 1974, it was apparent that the situation required a strong legislative approach rather than appeals to the public's better nature. The growing concern of the Government became clearer when, on 8 January, Mr Freer refused to give any indication of stocks or petrol consumption figures. The oil supply situation had become one of major concern for the Government.

Given the Government's assurances that rationing of petrol would only be used as a last resort, it was not surprising that, at midnight on 24 January, the price of petrol rose 11 cents a gallon, making premium grade petrol 59 cents a gallon. This increase was a direct result of the greatly increased costs incurred by the oil companies. The increase did not take into account the increased charges for oil which OPEC imposed from 1 January, 1974. The petrol price increase was also intended to reduce the demand for petrol, and thereby help to conserve supplies. The Government realized, however, that ever further measures would be needed if sufficient conservation was to occur. As a result, Mr Kirk announced, on 22 January, that the sale of petrol between midday on Saturdays and 7am on Mondays was to be banned from 9 February.

When these regulations were approved at the 5 February Cabinet meeting, Mr Freer said that further Cabinet decisions would be made if the supply situation did not improve. Mr Freer said that the most likely move would

be the banning of all private motoring from noon on Sundays every second Sunday. Mr Freer stated that New Zealand was now being affected by the reduced oil production, and was being subjected to a cut of 15 to 20 percent. This shortfall was being exacerbated by the increasing consumption levels. Figures supplied by the National Roads Board indicated that consumption of petrol had risen 12 percent in the four months immediately after the oil shortage began. 4.

However, the Government's oil saving measures started to have their desired effect, and by the end of February the supply crisis appeared to be easing. For example, petrol consumption had dropped considerably and by the end of February, 1974, petrol consumption was, according to Mr Watt only up 7.43 percent on the same period a year earlier. 5. By the end of February the mood in most official statements had altered slightly. The Commissioner of Energy Resources Mr R.J. Hogg, told a conference held in Nelson that the oil crisis was not over, but the rest of his comments dealt with New Zealand's concern to get a fair share of petroleum rather than running out of supplies. 6.

Then on 28 February, Mr Freer returned from Australia with assurances of additional diesel supplies from Australia. This came hard on the heels of the revelation that diesel oil stocks held at New Zealand's main ports were only 7 million gallons on 1 December, 1973, compared with 16,617,000 gallons on 1 December, 1972.

The overall supply situation appeared to improve further after the return of the diplomatic mission which New Zealand sent around the Middle Eastern oil producing states. At a news conference, Mr Kirk said that the mission, led by Mr J.V. Scott, had discovered sources of oil and refined products that could be available to New Zealand. Then, on

6 March, Mr Freer told Parliament that the oil companies had informed him that their supply position was improving. On 12 March, Mr Kirk acknowledged that the price of oil was a bigger problem than the supply problem. Two days later, the Deputy Secretary of Foreign Affairs, Mr J.V. Scott, who had recently returned from the Middle East, said that the world oil supply crisis had eased considerably. However, as New Zealand was at the end of the line it would take a little longer for the improvement to be noticed, he added. On 21 March, Mr Freer confirmed that the supply position was easing, but added that the price question remained.

The price rise was delayed until after the Easter Holidays. Mr Freer also temporarily lifted the week-end ban on sales of motor spirits for the Easter week-end. He denied that this move was a reflection of any significant improvement in the supply situation, but obviously felt stocks were in no danger of being exhausted. The price of petrol went up 9 cents a gallon at midnight on 18 April, thus making the new price of premium grade petrol 68 cents a gallon. The price of diesel rose by 12.3 cents a gallon to 43 cents, and fuel oil by 7.12 cents to 26 cents a gallon. The increases were to cover the additional prices since 1 January, 1974. Mr Freer acknowledged at this stage that there had been an improvement in the supply position of oil products. However, the restrictions applying to the use of motor spirits - the 50 m.p.h. speed limit and restricted week-end sales - remained in force. This was, presumably, to cover the possibility of any uncertainties of future supplies.

Retail petrol prices went up again by 1 cent a gallon at midnight on 1 May, making premium grade 69 cents a gallon. Thus, as a result of the rising price of oil

charged by the OPEC countries since the 4th Arab-Israeli conflict, the price of premium grade petrol rose 21 cents a gallon, or about 43 percent. This substantial increase in price certainly made the consumer more conscious of the need to use fuel efficiently. According to figures released by the National Roads Board, total petrol consumption for the first six months of 1974 was down compared with the same period in 1973. Whereas 241,071,702 gallons were consumed in the first six months of 1973, only 240,810,573 gallons were consumed in the corresponding period in 1974. 7. According to Energy Resources Minister Freer, the final figures for 1974 showed a marginal reduction in petrol consumption - half of one percent - for the year. This represented a much greater saving in real terms. Predictions based on usage patterns over previous years had estimated a rise of about 11 percent in motor spirits consumption during 1974. 8. Mr Freer felt that the reduction in usage seemed to have been caused mainly by the introduction of the 50 m.p.h. maximum speed limit, the compulsory closing early in the year of petrol stations at weekends, and a general awareness by the public and the commercial sector of the need to save fuel.

At the same time as he announced the 1 cent increase in petrol prices, Mr Freer said that there was still a need to conserve fuel. However, because of a "slight improvement in supplies", 9, Mr Freer also announced the restoration of normal week-end supplies. After the decision to restore the week-end sales of motor spirits the oil problem became one of price rather than supply.

On 15 October, the price paid by New Zealand for crude oil again increased. This, allied with the effects of a 9 percent devaluation of the New Zealand dollar in

September, will undoubtedly lead to further increase in the price of motor spirits in New Zealand early in 1975.

During the oil crisis there was a plethora of statements, estimates, and guesses at just how severely New Zealand was being affected by the oil supply crisis. Some idea of New Zealand's position can be gained from an examination of the figures of imports of crude petroleum

Table 9

QUARTERLY IMPORTS OF CRUDE PETROLEUM (Tons)

	1971-2	1972-3	1973-4
July-Sept	521,728	546,269	679,290
Oct-Dec	314,921	674,644	612,809
Jan-March	523,050	583,932	437,140
Apr-June	555,155	419,851	704,457

SOURCE: New Zealand Monthly Abstract of Statistics,
November, 1974, p.38.

(see Table 9). From these figures it is clear that New Zealand suffered a shortfall of supply in the last quarter of 1973 of about 62,835 tons compared with the last quarter of 1972. The shortfall was even greater for the first quarter of 1974 compared with supplies during the first quarter of 1973. It appears that the first quarter of 1974 was the most crucial period for New Zealand's oil supplies. During the six month period from October, 1973, to March, 1974, imports of crude oil were about 209,627 tons less than the corresponding period a year earlier. The improved supply situation after the first quarter of 1974 can be gauged from the increase of 284,606 tons in the second quarter of 1974 compared with the second quarter of 1973.

The overall situation from these figures (the latest

available at time of writing) shows an increase of crude petroleum imports for the nine months from October, 1973, to June, 1974, of 75,979 tons compared with the same period a year earlier. This does not mean, however, that New Zealand's oil supply situation has returned to its pre-oil crisis condition. The overall increase of crude petroleum imports from 1971-2 to 1972-3 was 309,842 tons. The corresponding figure from 1972-3 to 1973-4 was only 209,000 tons, a decrease of 100,000 tons. This figure is for the total crude petroleum imports only and the gap between supply and demand is considerably greater if one makes allowance for any expected increased consumption level. It is clear, then, that, in these terms, New Zealand did suffer from an oil supply crisis. It seems to me that, with an estimated expected increased consumption rate of, say, 100,000 tons, plus the direct decrease of about 100,000 tons, then New Zealand appears to have suffered an overall shortfall of about 200,000 tons, which translates to about 10 percent of New Zealand's annual consumption.

The oil price crisis, while not as immediately spectacular as the supply crisis, also affected, and will continue to affect New Zealand. According to the latest figures, the value of New Zealand's imports of Mineral Fuels, Lubricants, and Related Materials, increased by about \$93,000,000 in 1974 (see Table 10). It appears that the full effects of the oil price rises will amount to about \$200,000,000 for the year 1974-75. An increased oil bill of this size must rate as a very serious threat to New Zealand's economic welfare.

Quite clearly the oil crisis also posed a direct threat to New Zealand's economy. The effects have been seen in two main areas - inflation, and the balance of payments

Table 10

VALUE OF IMPORTS - MINERAL FUELS, LUBRICANTS, AND RELATED
MATERIALS

1964	\$47,819,000
1965	\$51,691,000
1966	\$39,945,000
1967	\$44,863,000
1968	\$48,042,000
1969	\$56,248,000
1970	\$59,094,000
1971	\$60,625,000
1972	\$66,593,000
1973(prov.)	\$76,666,000
1974(prov.)	\$169,997,000

MONTHLY (provisional)

1973

June	\$8,455,000
July	\$10,205,000
August	\$9,943,000
September	\$5,239,000
October	\$10,897,000
November	\$4,952,000
December	\$10,032,000

1974

January	\$13,844,000
February	\$13,604,000
March	\$11,404,000
April	\$30,892,000
May	\$22,014,000
June	\$26,971,000

SOURCE: New Zealand Monthly Abstract of Statistics,
November, 1974, p.32

situation. A slow-down in economic growth, continuing inflation, and a significant balance of payments deficit were expected in 1974 even before the oil crisis. The oil crisis has certainly accentuated these expectations.

In common with most other developed nations, New Zealand experienced high rates of domestic inflation in the 1970's. During the 1960's prices rose by an average 3.8 percent per annum, but by 8.5 percent per annum during 1970-73. 10. A considerable portion of New Zealand's inflation originates internally. Shortages of labour and

high wage settlements have pushed up wage payments much faster than increases in the productive capacity of the economy. However, as is often characteristic of small states, New Zealand has a very high dependence upon foreign trade. As a result of the high import content in New Zealand domestic spending, a 10 percent increase in the cost of imported goods can add 2 percent directly to domestic prices. The cost of getting goods to New Zealand also adds to domestic prices. 11. As has already been outlined, the higher prices for imported oil resulted in increases in domestic prices for petrol, diesel, and other fuels. There is no doubt that these increased fuel prices have added to the rate of inflation in New Zealand. It is not true, however, that the rising price of oil is totally responsible for the increased rate of inflation. New Zealand's inflation rate was 11.5 percent during 1974, but only a small part of this was attributable to oil. Most estimates put oil's share of the increased cost of living at only about 2 or 3 percent. 12.

While the increased costs of oil and oil products added about 2 to 3 percent to New Zealand's inflation rate in 1974, they also had a significant impact on New Zealand's balance of payments position. New Zealand, like many other primary producers, had done well out of the world boom of 1972 and 1973. In the year ended 30 June, 1973, New Zealand enjoyed a trade surplus on current account of \$325 million. In spite of a small reduction in the return from dairy products the country's foreign exchange reserves reached a record level of more than \$1,000 million. However, in the six months between June and December, 1973, reserves fell to \$825 million, and the surplus on current account had become a deficit of \$111 million. The New

Zealand current account showed a deficit of \$718.9 million for the year to November, 1974, compared with a surplus of \$184.6 million in the year to November, 1973. At the end of November, 1974, official overseas reserves totalled \$590.0 million, compared with \$892.8 million a year earlier. It has been estimated that the balance of payments deficit will increase to \$890 million for the year ended March 1975, an amount equal to more than half of the value of exports forecast for that period. 13.

Obviously, a deterioration of this magnitude in New Zealand's balance of payments position is not attributable solely to the increased costs of New Zealand's oil imports. Other factors which contributed to New Zealand's current account deficit included a fall in export prices, a higher import volume, and a significant increase in prices paid for those imports (see Table 11). On 18 March, 1974, Mr Rowling, then Minister of Finance, estimated that the oil exporters were likely to take an extra \$150 to \$170 million from New Zealand in 1974. From most estimates, it appears that the full effects of the oil price rises are likely to increase New Zealand's import payments by about \$200 million in 1974-75.14.

A useful gauge to the impact of the oil crisis on New Zealand's economy is provided when one considers that oil supplies during the third quarter of 1974 cost as much as the total bill for oil imports in 1973. 15. Clearly the New Zealand economy will face serious problems if the current account deficit continues to increase during 1975-76. In this case, all sectors in the economy would have to accept lower increases in real income than experienced in recent years. There is no doubt that the impact of the oil crisis has made a significant contribution

NEW ZEALAND'S OVERSEAS EXCHANGE TRANSACTIONS

Receipts	June Years (\$million)		
	1971-72	1972-3	1973-4
Export receipts	1,387	1,773	1,748
Invisible receipts	266	350	424
Total current receipts	1,653	2,123	2,172
Total capital receipts	288	191	204
Total receipts	1,960	2,314	2,376
Payments			
Import payments	1,073	1,249	1,849
Invisible payments	450	549	656
Total current payments	1,523	1,798	2,505
Total capital payments	147	184	265
Total payments	1,670	1,983	2,771
Current account balance	130	325	-334
Capital account balance	141	7	-61
Overall balance	271	332	-395
Overseas reserves as at end of period	758	1,094	594

Export Receipts

(a) Milk products			
Butter	145	106	109
Cheese	72	64	58
Other	110	140	147
(b) Other animal products			
Meat	448	586	565
Wool	253	436	371
Other	105	138	127
(c) Forest products	89	97	120
(d) Other primary products	55	70	70
(e) Miscellaneous	112	137	180
Total export receipts	1,387	1,773	1,748

Import Payments

(a) Oil products	86	98	168
(b) Non-oil products	987	1,151	1,681
Total import payments	1,073	1,249	1,849

SOURCE: R.J. Tizard, The Economic Situation, October, 1974
p.41

to the worsening position of the New Zealand economy.

The direct threats to New Zealand's prosperity and economic welfare as a result of the oil crisis have resulted in some considerable activity to offset those threats.

This activity has been concentrated in three main areas:

trade, the more efficient utilization of New Zealand's

energy resources, and diplomatic activity. The increased diplomatic activity undertaken by New Zealand as a result of the oil crisis, while having some effects upon New Zealand's economic welfare, has been predominantly concerned with New Zealand's idealistic and identity objectives and will be considered under that category.

One of the most obvious consequences of the oil crisis has been the creation of a New Zealand interest in trade with the Middle East. Before the oil crisis the Middle East was not of great importance to New Zealand's external trade. The value of New Zealand's exports to Egypt, Iran, Libya, Iraq, Kuwait, Saudi Arabia, the United Arab Emirates, and Israel for the year ended June, 1973, totalled NZ\$7,320,497 or about 0.41 percent of New Zealand's

Table 12

VALUES OF EXPORTS OF NEW ZEALAND PRODUCE TO MIDDLE EASTERN

COUNTRIES - for year ended June 1973

Egypt	\$147,867
Iran	\$5,740,122
Iraq	\$234,820
Kuwait	\$342,667
Saudi Arabia	\$423,722
United Arab Emirates	\$188,269
Israel	\$243,030

New Zealand's total exports for the same period -

\$1,754,642,950

SOURCE: Country Analyses of External Trade, (Wellington, Department of Statistics, 1974)

total exports for the period (see Table 12). Now, the Middle East, largely as a result of the swiftest transfer of money in history - the 13 OPEC countries earned US\$112 billion during 1974 - has become an increasingly attractive market for New Zealand. The position was summed up by a government trade official who said, "they've got the

population and now they have got the money to buy our goods. Added sales to the area make good business sense whether we negotiate oil deals or not". 16.

New Zealand was in the process of establishing trade relations with Iran before the outbreak of the 4th Arab-Israeli conflict and the oil crisis. In September 1973, during a session of the UN General Assembly, New Zealand's Prime Minister, Mr Kirk, met the Iranian Minister of Foreign Affairs, Mr Khalatbari, and discussed the possibility of developing closer relations between the two countries. The meeting was at the initiative of the Iranian Foreign Minister, 17, and when it was suggested that a New Zealand Minister should visit Iran, Mr Kirk expressed his interest in the suggestion.

Two points are worthy of note here. First, the initiative for the establishment of New Zealand-Iranian relations came from Iran rather than New Zealand, and, secondly, that Iran, while a Middle Eastern country, is also a non-Arab country. Thus, the development of relations with Iran would not have been irreconcilable with New Zealand's history of support for Israel against her Arab neighbours.

The next stage in the development of New Zealand's relationship with Iran came in January 1974, when the Minister of Finance Mr Rowling, accompanied by Mr N.V. Lough, Deputy Secretary to the Treasury, spent three days in Iran as a guest of the Iranian Government. Then, during April 1974, a nine-man Iranian economic mission led by the Deputy Minister of the Economy, Mr Hassan Ali Mehran, spent five days in New Zealand. The mission discussed trade and economic co-operation between the two countries - including meat supplies, technical co-operation,

investment, and the possibility of a bilateral trade agreement - with the Ministers of Trade and Industry, Agriculture and Fisheries, and Overseas Trade as well as the private sector and officials of Government departments and the Reserve Bank. Mr Mehran also called on the Prime Minister. 18. At the end of May 1974, a New Zealand five-man economic mission led by Mr K.J. Futter, Deputy Secretary of Trade and Industry, visited Tehran for follow-up discussions. Mr Futter had talks with the Iranian Ministers of Economy, Agriculture, Finance and Commerce, and with their officials. New Zealand's Minister of Overseas Trade and Associate Minister of Foreign Affairs, Economy, and Trade and Industry, Mr Walding had an audience with the Shah of Iran, the first time that the Shah had received a New Zealand Minister. 19. Mr Walding's visit followed by a week the announcement that the Shah, accompanied by Empress Farah, would visit New Zealand later in 1974. The Shah and Empress did, in fact, visit New Zealand from 27 to 30 September, 1974. On 30 September, 1974, a trade agreement between New Zealand and Iran was signed by the New Zealand Prime Minister, Mr Rowling, and the Iranian Minister of Foreign Affairs, Mr Khalatbari, in the presence of the New Zealand Cabinet and the Shah of Iran. The agreement includes two schedules of the type of exports of each country which will receive particular attention in future trade between the two countries. Petroleum was not included in the list of exports nominated by Iran, although this would not prevent supply arrangements from being discussed in the regular consultations of the joint commission for trade and economic development. The pre-visit speculation about the Shah providing plenty of cheap oil in return for mutton has not been realized; trade treaties seldom deliver overnight.

While New Zealand has failed to receive cheap oil supplies from Iran, trade between the two countries has increased dramatically. New Zealand exports to Iran in 1971-72 were worth \$2 million. For the year ending June 1973, exports to Iran totalled \$5.7 million. However, between 1 October, 1973, and 30 June, 1974, Iran ranked fifth among importers of New Zealand meat, taking about 12,310 tons - mainly mutton. For the year ending June, 1974, New Zealand's exports to Iran had nearly trebled and were worth \$17 million. New Zealand's biggest sales were (in order) mutton, wool, live sheep, skim milk powder and beef. New Zealand's trade with Iran has continued to grow and by August, 1974, Iran had bought 6,000 tons of lamb and 14,000 tons of mutton from New Zealand. 20. Under the trade agreement it is hoped that sales will continue to increase and has been estimated that the figure may rise to about 50,000 tons a year. 21. The shipments of live sheep to Iran have, however, caused some considerable controversy. Concern about the loss of work for New Zealand slaughtermen, allied with allegations of cruelty to the sheep in transit, led to a ban by the Meat Workers Union on live sheep shipments to Iran. The continuation of this ban could hinder future meat deals with Iran, but the Minister of Agriculture, Mr Moyle, has hinted that the Government is prepared to consider the export of live sheep. Mr Moyle said that Middle Eastern countries had apparently delayed buying frozen meat because they hoped to obtain live sheep shipments, and since October, when the ban was imposed, the terms of trade had declined further, and the trade with Iran in frozen meat had not developed as much as he had hoped. 22. The Minister said that the Government was keeping the situation under review and might consider allowing shipments

where they were clearly in the national interest.

It is very clear, then, that Iran could well be a major new market for New Zealand sheepmeats. The oil crisis helped this development in two main ways. The oil price rises provided Iran with the capital with which to purchase additional New Zealand products, and the prospect of a shortfall of Arab oil supplies prompted New Zealand to examine the potential for receiving greater supplies of Iranian oil. There is no doubt that oil was one of the major reasons behind the development of New Zealand's relationship with Iran. Even when Mr Kirk first expressed his interest in developing a New Zealand-Iranian friendship he said that "New Zealand will be interested not only for what it can sell to Iran but also in the possibility of developing some contractual basis that would assure this country of an adequate supply of crude oil in the event of some shortage developing". 23. Although New Zealand is not yet awash in Iranian oil, the dramatic increase in the trade between the two countries is a beneficial spin-off, and, in the long run, may prove of more importance than the immediate need for Iranian oil.

New Zealand's growing trade interest in the Middle East has not been confined only to Iran. In January 1974 it was announced that a New Zealand goodwill mission would visit certain Arab states. The mission comprising Mr J.V. Scott, Deputy Secretary of Foreign Affairs; Mr P.N. Holloway, Ambassador in Rome and a former Minister of Industries and Commerce; and Mr E.R. Woods, of the Ministry of Foreign Affairs, visited the Middle East from 1 to 26 February. The countries visited were Egypt, Lebanon, Syria, Qatar, Oman, the United Arab Emirates, Bahrein, Kuwait, and Iraq. A visit to Saudi Arabia was not possible

because of the other commitments of the Saudi Arabian officials. 24. The mission's basic objective was simply to establish friendly relations with the countries visited. The mission also had useful discussions on trade and technical co-operation. It was established that there was clearly scope for the development of mutually beneficial economic relations between New Zealand and the countries visited. The main areas for development were high-quality protein foods - meat and dairy products - timber products and manufactured goods. In addition, it became clear to the mission that New Zealand had much that could be useful to the countries concerned in the form of technical expertise - in pasture management, soil science, animal husbandry, and forestry. 25.

Then, in April 1974, teams from the Meat Exporters Council, from the Dairy Board, and from Asian New Zealand Development Consultants Ltd, (ANZDEC), paid visits to the Middle East. The trade commissioners from Athens and New Delhi were associated with the meat and dairy missions. 26. These visits confirmed the potential in the Middle East for meat, dairy products, and agricultural and other expertise. The report of the joint mission from the New Zealand Meat Board and the Meat Exporters Council said that apart from the State-trading countries - particularly Egypt and Syria - there appeared to be no formidable barriers preventing free trade with the area. 27.

On 16 June, 1974, the Libyan Minister of Agriculture, Mr Al Gaoud, arrived in Wellington for three days of talks with the New Zealand Government, producer boards, and other agricultural organizations. He had discussions with the Minister of Agriculture and Fisheries, Mr C.J. Moyle, and the Minister of Overseas Trade and

Associate Minister of Foreign Affairs, Mr Walding, and their officials. Mr Gaoud was especially interested in the possibility of getting help with problems of sheep management as well as the possibility of imports of New Zealand lamb. Mr Gaoud also met representatives of the Meat Producers Board, the Dairy Board, the Stock and Station Agents Association, and other private sector concerns. The visit, the first significant contact there had been between Libya and New Zealand, showed that the scope for mutual benefit exists in New Zealand's relations with Libya.

In August, 1974, a four-man delegation from Iraq visited New Zealand as guests of the Government. The delegation, all representatives of the State Company for Agricultural Production, had intensive discussions about the supply of New Zealand meat to Iraq, and two multi-million dollar agreements were reached. On 7 August the mission bought 1,200 tonnes of New Zealand lamb, and on 8 August the mission signed a 5,000-tonne contract for four shipments of mutton and lamb within six months. The two contracts were the first sales of meat to Iraq by New Zealand. The contracts were, however, only a short-term measure as Iraq, an agricultural country, had been suffering severe climatic problems. Nevertheless, the delegation said that Iraq was interested in New Zealand meat and dairy products, and in return would come supplies of oil, sulphur, and dates. The leader of the delegation, Mr S.M. Kassir, said he hoped the visit would be the forerunner of a two-way flow of trade between Iraq and New Zealand. 28.

The establishment of diplomatic relations with Egypt and the re-opening of the Suez Canal could also pave

the way for new trade opportunities in the Middle East. While it seems that, because of Egypt's serious financial problems, initial progress will be slow, Egypt's 38 million people are obviously a potentially huge market. New Zealand concerns are already investigating prospects in Egypt. In November, 1974, the Dairy Board's general manager visited Cairo and he was followed closely by the sales manager of the Auckland Farmers' Freezing Company. According to New Zealand's first Ambassador to Cairo, Mr P.N. Holloway, "there is a strong probability that we can open up trade with Egypt, something which has been virtually non-existent since the Suez Canal closed." 29. Mr Holloway acknowledged that the immediate prospects are not as good as with Iran or Iraq because of the economic situation, but thought that there were good long-term opportunities for sales of beef and sheepmeats.

There is no sign that the new trade interest in the Middle East will be only a brief phenomenon. 30. Increased trade between the Middle East and New Zealand appears almost certain to continue. The main problem does not appear to be the lack of markets but rather the lack of facilities. The various meat board missions have reported the lack of facilities for handling frozen meat as a major obstacle to trade in the area. The provision of a more efficient shipping service to the Persian Gulf ports will also be vital to the future development of New Zealand's meat trade with the Middle East.

It is interesting to note here the change in attitudes of some of New Zealand's leading business executives since the oil crisis. A survey of 341 leading business executives carried out in October, 1973, but before the oil crisis, showed that most thought that Japan would

have the most impact on New Zealand's economic well-being in the 1980's. 31. Japan (35%) was followed by the EEC (23%), Australia (18%), South East Asia (11%), USA (5%), China (2%), and other countries (1%). However, a survey of those same 341 business executives in October, 1974 revealed a rather changed outlook. In response to the question - which country do you think will have the most impact on New Zealand's economic well-being by 1985? - the Middle East suddenly appeared in fourth position with 11% of the replies. The EEC topped the list with 30%, followed by Australia (20%), Japan (14%), the Middle East (11%), USA (10%), South East Asia (8%), the British Isles (3%), China (2%), and other countries (2%).

Further trade prospects with the Arabian Gulf states will be explored by a New Zealand delegation for three weeks in March and April of 1975. The team plans to visit several countries in the area, all of which have virtually no domestic manufacturing and import up to 95 percent of all types of commodities. The mission is being organized by the Export Institute of New Zealand with the backing of the Manufacturers Federation and the Department of Trade and Industry. Delegation members plan to be in the area from 13 March to 7 April. 32.

The oil crisis has also affected New Zealand's attitudes towards the utilization of energy resources. While few of the world's developed nations had shown much foresight in developing and utilizing the world's energy resources, New Zealand had been worse than most. Because oil, electricity, and even coal had been so cheap, New Zealand used them at will without regard to efficient utilization. While conditions prevailed this reaction was understandable.

The oil crisis has changed that situation, however, and the era of abundant and cheap energy has ended. No longer can New Zealand (or any other country) afford to waste energy. It did not take very long for the oil crisis to bring about a change in thinking on the future development of New Zealand's energy resources. One observer noted that "if there has been one lesson from the petrol crisis and the related problems it has brought it is that our energy resources are precious and finite and that using them to the best advantage will need close co-ordination". 33.

Initially, it was thought that New Zealand would be subjected to a 20 percent cut in oil supplies for 1974. A reduction of this magnitude would have had serious effects on agricultural and industrial production and a number of steps were taken urgently. Measures to reduce consumption were of prime importance. The Ministry of Energy Resources convened a committee comprising a wide range of Government departments, and working parties were established to evaluate the savings which could be made by the adoption of certain practices. 34.

Over a period of weeks the Government instituted the following measures: (a) a 50 m.p.h. maximum speed limit;

(b) a ban on 'week-end' petrol

sales after noon on Saturday.

(c) 'Anti-hoarding' regulations;

(d) restrictions on the sale of

bunker fuels to regular contracted customers in minimum quantities only;

(e) restrictions on the sale of

diesel and fuel oils to 1973 levels;

(f) control of aviation fuel

(g) a limitation on oil-fired

electricity generation;

(h) restrictions on the sale of 'comfort heating' fuels to 93 percent of 1973 levels;

(i) restrictions on the sale of bitumen to 95 percent of 1973 levels. 35.

At the same time industrial consumers were encouraged to give serious consideration to substituting coal and natural gas for oil, and several studies were carried out to determine the scope for such substitution. On 8 February, 1974, the Minister of Energy Resources, Mr Freer, announced that the Government had offered financial assistance to manufacturers of home-heating appliances. This was to enable them to perfect the adaption of oil-fired home heating units being manufactured for use with alternative fuels. This was done to enable home appliances which used oil to be converted, if necessary to natural or bottled gas.

Steps were also taken to explore avenues of supply other than from the international oil companies. These included discussions at ministerial level with the Australian Government to ensure the continuation of full supplies of petroleum products from that country. Discussions were also held on the possibility of additional diesel oil being made available from Australia should New Zealand's stocks deteriorate to the point that agricultural and industrial production were likely to be seriously affected.

While the oil crisis led to a concerted effect by the New Zealand Government to reduce consumption of fuels, it also resulted in an increased activity in the field of exploration for fuels. Before the oil crisis, oil exploration on land had slowed down, largely because of

the expiry of a number of petroleum licences, and it had slowed down offshore because of the non-availability of an appropriate oil drilling rig. In the past oil exploration in New Zealand had been at the will of the oil companies and if they decided to cease exploration then the search came to a standstill. Previous New Zealand Governments tended to accept this state of affairs and as a result oil exploration in New Zealand has tended to be rather spasmodic. Even when the Maui gas field was discovered there was an inordinate delay before an agreement was signed.

New Zealand's energy reserves have been the subject of extensive political manoeuvring since the first Labour government. With the acquisition of a number of coal mines and later the purchase of a 52 percent interest in BP, the Labour Party has always been committed to the belief that a country has to have a stake in its energy reserves, both as an income earner and for national emergencies. The National Party, however, has not adopted the same philosophy. Instead they have felt that it should be left to private enterprise to develop New Zealand's energy resources. For example, when coal lost favour successive National Governments closed down uneconomic mines rather than look for alternative uses. When the Labour Party won the 1972 General Election they said that they would ensure that energy resources would be properly exploited. It is to the credit of the Labour Government that it kept an election promise and bought a half share in the Maui field, which certainly now looks like a reasonable buy.

Further activity in the field of oil exploration

has been rather slower. On 6 December, 1973, Dr C.J. Maiden, Vice-Chancellor of Auckland University, said that "the Government should speed up the search for offshore oil. The Maui field cannot exist in isolation and there are probably additional, very significant, natural gas and oil resources waiting to be found in and around New Zealand". 36. The managing director of Mobil Oil NZ Ltd, Mr G. Duncan, has said that he believes a lot more oil exists in New Zealand than has so far been discovered. An American oil expert, Mr Ken Brunot, of the National Science Foundation, when he was in New Zealand under the New Zealand-United States bilateral energy agreement, said that he was amazed at the extent of New Zealand's continental shelf and felt that New Zealand could have undersea petroleum resources large enough to be significant by world standards. 37. Maui oilmen calculate that the chances for a successful strike are one in nine, while the odds for a commercial strike are one in twenty-five. However, despite these optimistic opinions, oil exploration has almost been at a standstill. This has been largely because the oil companies were not prepared to invest huge sums into exploration until they knew the New Zealand Government's attitude towards new discoveries. There has been a worldwide trend for Governments to acquire a larger interest in oil and gas discoveries, and, with Labour's philosophy of state involvement, this has meant that oil exploration in New Zealand was delayed until an official policy became available. The oil companies were not prepared to invest heavily in new exploration ventures only to have the government take over the successful ventures and therefore enjoy a substantial 'carried free' interest on discovery. The oil companies position was

outlined by the chairman of the New Zealand Petroleum Company, Mr C.C. Shepherd, in October, 1974, when he said that "we can only await the announcement of full details of the Government's new policy". 38.

The Government has not changed its view that New Zealand's resources should be exploited in the interest of the nation with Government participation. The Government has now tabled the Petroleum Amendment Bill, No.2. The proposed legislation tightens a number of provisions in the 1937 Act which have proven "unduly advantageous" to the prospecting companies, and leaves open the degree to which the Government can demand participation in development of any discoveries. Not surprisingly, the oil companies have been rather critical of the proposed new legislation.

Possibly motivated by fears of a boycott inspired by the tough provisions of the new Petroleum Amendment Bill, the Government offered, on 29 November, 1974, to take part in the development of any offshore petroleum discoveries made by the Penrod 74 and Glomar Tasman drilling rigs, which will begin drilling in 1975. The special offer was made only to those prospectors known to have been arranging for the Penrod 74 and Glomar Tasman to begin drilling programmes in areas covered by existing licences. These licences, due to expire in October 1975, will be renewed to any petroleum prospector who accepted the offer which committed the Government to meeting 40 percent of the prospecting costs and subsequently entitled it to receive a 51 percent interest in the development of any successful discovery. The 51 percent was to ensure that the Government had the controlling interest in developing valuable indigenous

energy resources for the benefit of the country as a whole. ⁷⁰

It appears, then, that the oil crisis has forced the New Zealand Government to formulate an official policy of state involvement in the search for, and development of oil as well as providing added impetus for further exploration in an attempt to lower New Zealand's dependence upon imported oil supplies.

The oil crisis also had some significant effects on New Zealand's attitudes towards the utilization of sources of energy other than oil. The former Minister of Electricity, Mr T. McGuigan, has stated that to cope with future electricity demand New Zealand "will have to turn, increasingly, to thermal generation". 39. The Government has revised plans for a \$65 million power station at Marsden Point, so that it can be fired by either coal or oil, rather than just oil as was planned. 40. This move will boost the cost of the station well above the original estimate of \$65 million. In the search for more electricity the Government has approved in principle one of the largest development proposals undertaken in New Zealand - a \$340 million scheme to install six hydro-electricity dams on the Clutha and Kawarau rivers in Central Otago. These dams will have a maximum output of 1490 megawatts, or about double the output of Manapouri. The reports of the Committee to Review Power Requirements and the Planning Committee on Electric Power Development, tabled in June, 1974, said that power plans were being reassessed to depend more on coal and less on oil. Accordingly, urgent priority is being given to studies of how soon a South Island coal-fired electricity station can be built. The Government has also given the Electricity Department approval to build the Ohau B and Ohau C power

stations, the final stages of the Upper Waitaki hydro-project. Both will be 212 megawatt stations. In addition the conservation of existing electricity supplies has become important. The dry spell which caused nationwide power shortages in 1974 made electricity consumers more aware of the need to cut wastage and to use electricity more efficiently. In addition the Government has been looking at measures such as the imposition of a high sales tax on the sale of some window-type air conditioning units which are believed to use an excessive amount of electricity. On 24 December, 1974, the Minister of Electricity, Mr R. Bailey, expressed his concern and felt "that the public of New Zealand should be made more aware of the energy crisis which could face us unless we embark on some form of power conservation. I feel the time has come to take a good, long, hard look at conservation in this area". 41.

As a result of the oil crisis New Zealand's natural gas fields have assumed a greater importance. The crisis gave fresh impetus to the idea of a petrochemical industry as the increased costs of overseas supplies could make a local industry viable. Proposals for a multi-million dollar methanol extraction plant using Maui gas have also been put to Government. Methanol is the simplest alcohol which can be produced from natural gas and it has a wide application. The production of methanol would not only supplement New Zealand's liquid fuel requirements but also provide a chemical feedstock for existing industries. 42. The oil crisis has also raised the possibility of using liquified petroleum gas (LPG) as an alternative to the

traditional electricity and more recently natural gas.

A shortage of electricity and the much-increased cost of oil imports have naturally stirred interest in coal. The Government's policy to use coal as a saver of oil is well known. As early as 10 December, 1973, the Government authorized the Minister of Mines, Mr F. Colman, to increase coal production as a part of the campaign to reduce the reliance on imported fuel. On 6 March, 1974, Mr Colman told a coal industry news media seminar that many industrial concerns were responding to the Government's suggestion that more use be made of coal. The draft of a proposed White Paper on the New Zealand coal industry was near completion when the reduction in oil supplies and the price rises for crude oil occurred. The oil crisis radically changed some of the assumptions in the initial draft and it was necessary to review a large section of the draft paper. 43. The White Paper, which strongly advocated the greater use of coal, was tabled in Parliament on 26 September, 1974. The possibility of deriving oil and oil by-products from coal has also been suggested. However, "tentative economics favour very large scale plants, far larger than would be feasible in New Zealand". 44.

The possibility of New Zealand using nuclear power has also become a topic of much discussion since the oil crisis. Official statements on the date when New Zealand will begin using nuclear power have varied wildly, but it seems that New Zealand will not have to use nuclear electricity generation before the 1990's.

The energy crisis has prompted discussion on the use of solar energy. However, the DSIR has been working on a copper and steel solar heating unit since 1957 and

has still not come up with an economically competitive 73
form of solar energy. Nevertheless, research has been
accelerated by the oil crisis and a breakthrough may
soon appear. New Zealand might also possess a much
greater potential for geothermal steam development than
had been previously thought. "The Member of Parliament
for Taupo, Mr J.W. Ridley, has suggested to an internation-
al conference on geothermal power at Wairakei that the
potential of steam power in New Zealand is much greater
than had been appreciated". 45. There is no doubt that
the fuel crisis has dramatically changed the position and
the erstwhile pessimism has gone.

The oil crisis has also triggered off several
other notable areas of activity. On 29 April, 1974, the
Minister of Trade and Industry, Mr Freer, announced that
the Government was setting up an award scheme for firms
which save resources or make better use of them.
Perhaps the most important step, however, was the
establishment of the Energy Research and Development
Committee, headed by Dr C.J. Maiden, to guide New Zealand
on a more self-sufficient energy policy. On 27 February
1974, Prime Minister Kirk signed an Agreement for
Scientific and Technical Co-operation with the United
States. "The initial emphasis under that agreement is
to be on energy research and it was to administer the New
Zealand side of the agreement, for which Dr Maiden is
agent, that the Energy Research and Development Committee
was established". 46. The Committee was allocated a
budget of \$500,000 for the first year, but this could be
increased - to possibly several million dollars - in the
future. On 3 November, 1974, the Committee announced
research grants of \$247,000. A grant of \$89,400 was

made to a team of scientists from Lincoln College, the Cawthron Institute, and the University of Auckland for a project to improve the economics of producing alcohol and methane from such crops as sugar beet, wood, and grain as a replacement for petrol in cars and trucks.

It is very obvious, then, that the oil crisis has served to revitalize enthusiasm for the possible development of alternative energy resources in New Zealand. New Zealand is well endowed with energy resources and the oil crisis has made quite clear the need to develop some of these resources. If policy makers take this opportunity, the oil crisis may well prove to be a blessing in disguise for the future, planned development and efficient utilization of New Zealand's energy resources.

When confronted with direct threats to its economic and prosperity objectives a country can usually react and try to offset those threats. However, indirect threats usually cannot be offset so readily. This is especially true of a small state. The indirect threats to New Zealand's economic and prosperity objectives as a result of the oil crisis are the result of the extreme pressure which has been placed on the world's monetary system and the consequent instability of world trade.

The fourfold increase in the price of oil in the fourth quarter of 1973 brought with it sweeping changes to the international distribution of income and the balance of payments situation. The oil producing nations' 'take' from a barrel of oil, less than US\$1 at the start of the 1970's, was lifted from US\$1.76 before the 4th Arab-Israeli war to US\$3.03 at the end of 1973, and to more than US\$7.00 from 1 January 1974. 47. The result has been the

greatest and swiftest transfer of wealth in all history; the OPEC countries earned US\$112 billion from the rest of the world in 1974. The producing government 'take' from oil has risen to levels at which certain Middle Eastern countries can no longer spend their revenues and the world faces serious problems in dealing with the massive surplus of funds. Because the oil producing countries could not spend it all, they ran up a payments surplus of US\$60 billion in 1974. This sudden shift of money has shaken the whole fragile structure of the international financial system, severely weakened the already inflation troubled economies of the oil-importing nations and given great new political strength to the oil exporters.

The danger in this situation is that individual countries may try to improve their own balance of payments positions by restricting imports or devaluing in an attempt to reduce their deficits at the expense of the other deficit countries. This could lead to a contraction of world trade. The danger of a global recession then exists because as people spend more on oil, they have less money left with which to purchase other requirements.

It is obvious, then, that the sudden, sharp rise in oil prices has aggravated all sorts of problems, increased tendencies towards government controls, intensified nationalism and called into question the future of free economies. Suddenly the possibility that the international system might break down existed. However, not all of the world's economic malaise can be blamed on the increased oil prices. Nevertheless, to battle inflation, which was given a boost by the increased oil prices, all Western nations clamped on

restrictive budget and credit policies, causing their economies to slow down simultaneously for the first time since the 1930's.

The drastic worsening of the balance of payments situation of the oil importing countries brought about by the higher oil prices will not be remedied by normal adaptive measures such as expansion oriented fiscal and monetary intervention and currency revaluations in the abundant oil-producing countries or, alternatively, internal restrictions and currency devaluations in the adversely affected oil-importing countries. Any improvement in the current account balances of the oil-importing nations relative to the exporting countries is not likely, at least in the short term.

As a result several plans which aim to come to grips with the massive shift of economic wealth to the OPEC countries have been suggested and debated. Johannes Witteveen, head of the International Monetary Fund (IMF), has put forward a plan which calls for the creation of an 'oil facility' at the IMF which accepts deposits from the oil producers and then lends that money at a bargain interest rate of 7 percent. Britain's Chancellor of the Exchequer, Denis Healey, has proposed a plan which calls for a recycling bank similar to the IMF's, but which would pay interest at commercial rates to attract more OPEC deposits. American Secretary of State, Dr Henry Kissinger, has proposed a \$25 billion 'safety net' lending agency which would be funded by consuming nations. Member countries strapped by high oil-import bills could borrow from the fund in emergencies, if they agree to energy conservation. The Secretary-General of the 24 nation Organization for

Economic Co-operation and Development (OECD), Emile van Lennep, proposed a similar plan to the Kissinger plan except that the loans would be guaranteed by the OECD.

Obviously New Zealand's economic and prosperity objectives would be threatened by any world economic recession. A slump in the economies of New Zealand's major trading partners - the United Kingdom, United States of America, and Japan - would be passed on through the channels of international trade. The 'multiplier' effect of a reduced loss of income by exporters, leading to a reduced demand for New Zealand labour and so further reducing incomes, might lead to a very rapid contraction of purchasing power. It is not surprising, then, that New Zealand, even with a balance of payments deficit of about \$800 million (only about \$200 million of which is oil-induced), has continued to act largely as if normal economic conditions existed. But New Zealand's contribution on the world scale is negligible. The indirect threats to New Zealand's economic and prosperity objectives will remain serious until a method has been found to stabilize the world monetary and trade situations. Ironically, while these indirect threats provide the greatest potential danger to New Zealand's economic and prosperity objectives, it is in this very area that New Zealand can be least effective.

Nevertheless, there are signs of some effective action coming about. On 16 January, 1975, a meeting of the Finance Ministers of twenty countries, representing all 126 nations in the IMF, announced that they had reached agreement on certain measures to be taken. The most important of these are two special funds, one within the IMF for the use of any member country which finds its

oil debts intolerable, and the other, a 'safety net' reserved for industrial countries and intended only as a last resort. 48. The special IMF fund will be for about \$US6,200 million borrowed from the oil-producing countries for relending where it is most needed. About \$US1,500 million of this will probably be borrowed by developing countries in 1975, and for them there will be special cut-price interest rates. It is hoped that these measures will reduce the temptation for countries to act alone to cure payments deficits caused by rocketing oil bills. The Canadian Minister of Finance, Mr J. Turner, who was chairman of the Ministerial conference told a news conference: "I believe that our actions will reinforce business confidence around the world, and also reinforce the confidence of governments". 49. If this does occur then the indirect threat to New Zealand's economic and prosperity objectives may well recede somewhat.

(III) IDEALISTIC AND IDENTITY OBJECTIVES

The oil crisis also posed some problems with regards to New Zealand's idealistic and identity objectives. When the Arab oil producers decided to use oil as a political weapon they divided the oil-consuming nations into one of three categories: friends, neutrals, and enemies. Oil supplies were to be regulated according to this classification with a total embargo on nations classified as 'enemies' and normal supplies to those classified as 'friendly'. Obviously, a nation with a high level of Arab oil imports would want to be classified as friendly in order to maintain its level of imports. In most cases the achievement of a 'friendly' classification required a concentrated diplomatic effort

to win favour from the Arab nations.

Obviously, New Zealand, with its relatively high dependence upon imported Middle Eastern oil, did not want its supplies of oil imports reduced and as a result there has been a marked upswing in the levels of diplomatic activity between New Zealand and the Middle East since the 4th Arab-Israeli war. New Zealand, largely because of its low profile in the Middle East after the Suez affair, was regarded by the Arabs as a 'neutral' country. However, taking a line through New Zealand's UN voting patterns and official statements before October, 1973, this 'neutral' classification seemed a little fortunate, and fairly strong ties with Israel still existed. The New Zealand Government was not slow to capitalize on this situation and by 1 February, 1974, had despatched a 'good-will' mission to visit a number of Arab states in the Middle East and the Persian Gulf. The mission, led by the Deputy Secretary of Foreign Affairs, Mr J.V. Scott, visited Lebanon, Egypt, Kuwait, Iraq, Bahrein, Qatar, Oman, and the United Arab Emirates. Prime Minister Kirk said that the mission aimed "to explore the possibilities of developing closer relations both politically and in trade".

50. This move was a radical departure from New Zealand's former low profile position in the Middle East and was undoubtedly caused by the oil crisis. When announcing the move Mr Kirk said that "the mission would hold its discussions against the background of current domestic and world concern over oil supplies".

There have also been developments of particular note with Libya, Iraq, the United Arab Emirates, Egypt, Iran, and Israel. As was noted in the section on New

Zealand's trade developments with the Middle East, in June 1974, New Zealand was host to a visit from the Libyan Minister of State for Agricultural Development, Mr Al Gaoud. This was the first visit to New Zealand by a Libyan Minister and the Government said that it welcomed the visit and looked forward to greater contact with Libya in the future. 51.

New Zealand was also host to a visit, in August, 1974, from a four-man Iraqi delegation. Although primarily a trade delegation this contact with Iraq was also in marked contrast with the virtually non-existent New Zealand-Iraq relationship before the oil crisis.

As early as January, 1974, New Zealand invited the Foreign Minister of the United Arab Emirates, Mr Saif Ghobash, to visit Wellington for a day of talks with Ministers and officials. This visit, the first to New Zealand by an Arab Minister, was greeted as "a significant and welcome step in the development of New Zealand's relations with the Arab world". 52.

One of the most significant diplomatic moves made by the New Zealand Government was the decision to appoint an Ambassador to Egypt. In January, 1974, the Egyptian Ambassador to New Zealand, Mr Marzouk, visited Wellington and had discussions with the New Zealand Government. Then, in June, 1974, Prime Minister Kirk announced that the New Zealand Ambassador to Italy, Mr P.N. Holloway, had been appointed concurrently Ambassador to Egypt. This completed the exchange of diplomatic representatives initiated when the Egyptian Ambassador in Canberra was accredited to New Zealand in 1970. That the first New Zealand diplomatic representative to any Middle Eastern country was to an Arab country is very significant,

especially when one considers New Zealand's past history of pro-Israeli sympathies.

Since the oil crisis, and the sudden emergence of Iran as an important, non-Arab, oil-producer, there has been a steady stream of Western diplomats into Teheran. Although initiatives were under way before the oil crisis, New Zealand was just one of the many countries which sought to woo favours from Iran once the oil crisis occurred. On 13 December, 1973, it was announced by the Associate Minister of Foreign Affairs, Mr Walding, that New Zealand and Iran had established diplomatic relations. It was announced that Mr Hossein Eshraghi had been appointed Ambassador Extraordinary and Plenipotentiary of Iran to New Zealand. The Iranian representative is based in Canberra and carries dual accreditation. The New Zealand Minister of Finance, Mr Rowling, visited Iran in early January, 1974, and found prospects for "extremely useful relations, both political and trade", 53, between New Zealand and Iran. The diplomatic relationship was strengthened further when, from 27 to 30 September, 1974, the Shah and Empress of Iran made a visit to New Zealand. On 30 September, 1974, a trade agreement between New Zealand and Iran was signed. It was also announced at this time that New Zealand would establish an embassy in Teheran by early 1975. On 19 December, 1974, it was announced that Mr B.M. Brown had been appointed as New Zealand's first Ambassador to Iran. He is expected to take up his duties in March 1975, although Mr E.R. Woods, who has been appointed first secretary in the Embassy, will act as charge d'affaires in Teheran from early January, 1975. 54.

It is fairly clear, then, that since October, 1973,

there has been a dramatic increase in the level of diplomatic activity between New Zealand and the Middle Eastern nations. There is no doubt that the oil crisis has been a major reason for this.

The increased interest in the Arab nations has not been universally welcomed however. For instance, the Mayor of Auckland, Sir Dove-Myer Robinson, himself a Jew, has publicly expressed the not uncommon view that New Zealand was selling out its moral obligations to Israel for materialistic gains from the Arab oil-producers. 55. The emphasis on morality is particularly relevant when one considers Mr Kirk's expressed wish to "find and hold to a firm moral basis", 56, for New Zealand's foreign policy.

New Zealand's changed relationship with Israel since the oil crisis has also been quite significant. As has been noted, in spite of the close ties with Israel and the support for the Labour Party from the New Zealand Jewish community, the Labour Government turned around soon after the oil crisis and sent a mission through the Arab States. There is no doubt that such a move, while probably in New Zealand's best interests, still represented a considerable cooling off of the New Zealand-Israeli relationship. Despite the numerous recent visits to New Zealand by Israeli officials, most notably Mr M. Varon, a senior Israeli Diplomat in charge of the Asian and Pacific Division of the Israeli Ministry of Foreign Affairs, in May, 1974, the New Zealand Government has rejected its former close ties with Israel. Further evidence of the shift in New Zealand's policy is the refusal of the New Zealand Government to allow Israel to set up an Embassy in New Zealand, despite the fact that

Israel got agreement to do so before the oil crisis erupted.

Meanwhile, New Zealand has accredited an Ambassador to Egypt and is setting up an Embassy in Iran. It is known that Israeli officials feel a sense of betrayal from these actions by the New Zealand Government. 57.

Further indications of a slight shift in New Zealand's foreign policy can be seen if one examines the annual reports of the Ministry of Foreign Affairs. In his introduction to the report for the year ended 31 March, 1973, Prime Minister Kirk made no mention whatsoever of the Middle East or any individual country in the Middle East. The Middle East did, however, rate a mention in the world survey of areas. However, the paragraph on the Middle East was written in terms of "terrorist" and "extremist" Arab and Palestinian groups committing "outrages" against Israel. 58. After the 4th Arab-Israeli conflict and the oil crisis the New Zealand position changed slightly. The Middle East did feature in Mr Kirk's introduction in the report for the year ended 31 March, 1974. Mr Kirk cited the Middle East as a new area of foreign policy for New Zealand. Mr Kirk said that the Middle East was an area of "enormous potential" and that his Government "intends to see that New Zealand seizes this opportunity". 59. The world area survey also devoted considerably more attention to the Middle East than did the 1973 report. In addition, the 1974 report made no mention of terrorist outrages but instead concentrated on the "efforts to secure peace", 60, in the area and New Zealand's efforts to expand contacts

in the Middle East. No longer did any attempt to apportion blame to either side exist; further evidence of a more 'even handed' approach to the Middle East situation.

There is no doubt that the cooling off, in public at least, of New Zealand's relations with Israel is a direct result of the oil crisis. As a result of the oil crisis, New Zealand has altered its idealistic and identity objectives and has consequently shifted its political sympathies to a more neutral position in order not to antagonize the Arab oil-producers. This shift is particularly evident in New Zealand's voting in the UN since October, 1973.

Once the actual fighting had quietened down, the General Assembly heard several motions on the Middle East situation. In December, 1973, the General Assembly heard at least four such motions. The first motion was one which proposed the Palestinians' right to self-determination. New Zealand abstained on this vote. New Zealand also abstained from the General Assembly vote condemning Israel's confiscation of land and property in the 'occupied territories'. New Zealand again abstained from voting on a resolution condemning the establishment of Israeli settlements in the 'occupied territories'. New Zealand did, however, vote in favour of a resolution calling for an examination of the Palestinian refugee problem and the question of the resettlement of the Palestinian refugees.

Then, in January, 1974, the question of sovereignty of the 'occupied territories' was raised. New Zealand abstained from a resolution condemning Israel's exploitation of the natural resources in the 'occupied

territories'. This list of abstentions on matters concerning the rights of the Palestinians and those Arab states which have lost territory through war was in keeping with New Zealand's post-Suez, 'low profile' in Middle East affairs. 61.

However, once the real significance of the oil crisis became clear New Zealand changed its position slightly. On 14 October, 1974, the General Assembly gave preliminary consideration to 'The Question of Palestine'. Before the Assembly was a draft resolution sponsored by 71 countries inviting the Palestinian Liberation Organization (PLO), as the representatives of the Palestinian people, to participate in the deliberations on this question in the Plenary meetings. Twenty-one speakers took part in the debate. The Assembly then adopted the resolution by 105 (including New Zealand) votes to 4 against (including Israel and the US) with 20 abstentions (including Australia, Canada, and the United Kingdom). 62. Naturally, the Israelis were angered by the UN invitation to the PLO, which the Israelis regard "not as a national liberation movement, but the organization for terrorist groups who have perpetrated dastardly acts of terrorism in Israel as well as in other countries". 63. The vote meant that for the first time representatives of other than a United Nations member state had been invited to take part in the deliberations of the plenary assembly. The United States Ambassador, Mr John Scali, expressed his "profound concern" over the resolution's departure from the long-standing precedent that only representatives of governments should be allowed to participate in plenary

deliberations. 64. In New Zealand, Prime Minister Rowling defended New Zealand's vote. Mr Rowling said that the Israelis strongly objected to New Zealand's voting in favour of the PLO being given observer status. 65. Mr Rowling said that New Zealand's decision was based on the overriding desirability of hearing, in the United Nations debate on Palestine, the views of the only available representatives of the Arab people of Palestine as such. The vote did not mean, he said, that New Zealand condoned all methods used by organizations like the PLO - specifically armed violence and terrorism. There is little doubt, however that this vote was a significant departure from New Zealand's low profile policy on Middle East affairs, and it certainly was a shift away from New Zealand's pro-Israeli sympathies.

On 13 November, 1974, the General Assembly debate on Palestine was opened by Mr Yasser Arafat, leader of the Palestinian Liberation Organization. Arafat told the Assembly that he had come with "an olive branch and a freedom fighter's gun", 66, and warned: "Do not let the olive branch fall from my hands". Arafat was given a standing ovation by most of the delegates. Among the delegates to remain seated were those of the United States, Britain, Australia, and New Zealand. 67. The Israelis, who had boycotted the speech, promptly denounced the PLO as murderers, assassins and cut-throats. 68.

The New Zealand Ambassador to the United Nations, Mr M. Templeton, made his speech in the General Assembly debate on Palestine on 21 November, 1974. His speech made it abundantly clear that New Zealand had "abandoned

any semblance of favouritism towards Israel in its international diplomatic posture". 69. Observers described the New Zealand speech - one of the shortest in the debate - as having a completely "even handed" approach. New Zealand declared that Israel should give up territory it conquered in 1967, and that it did not recognize Israel's annexation of Jerusalem. New Zealand did, however, reaffirm its belief that Israel had a right to exist as a sovereign independent State, with guaranteed borders. 70. On 22 November, the UN General Assembly adopted a resolution reaffirming the rights of "the Palestinian people in Palestine" to nationhood and to return to their homes and property. The resolution, jointly sponsored by the Arab states and a number of other non-aligned nations, further recognized the right of the Palestinians "to regain their rights by all means in accordance with the purposes and principles of the charter of the United Nations". 71. A total of 89 members voted for the resolution. There were eight against and 37 abstentions. 72. The United States was among the countries which voted against the resolution. Britain and the other European Common Market members abstained. New Zealand also abstained from voting on this resolution. 73. The Assembly also adopted a second resolution inviting the Palestinian Liberation Organization to the Assembly sessions as an observer. The vote was: 95 for, 17 against, 19 abstentions. 74. New Zealand abstained from the vote. 75.

New Zealand's vote in favour of giving the PLO an invitation to take part in the General Assembly debate on Palestine was in contrast to New Zealand's history of

abstaining from substantive votes on the Middle East situation. It seems very probable that New Zealand's willingness to invite the PLO to the UN was prompted by the increased bargaining power acquired by the Arab nations since the oil crisis. New Zealand's abstention on the vote to give the PLO permanent observer status at the UN was in keeping with New Zealand's policy and, in an explanation of its positive vote to invite the PLO to address the UN, New Zealand had stressed that the first vote would not prejudice New Zealand's attitude towards the attendance of the PLO at meetings on other occasions.

76. Nevertheless, a slight shift in New Zealand's Middle East policy seems to have occurred. It would appear that the New Zealand Government has adopted a foreign policy which, while not pro-Arab, definitely attempts to avoid antagonizing the Arab nations. The main reason for such a policy shift would appear to be oil pressure from the Arab oil-producers.

The oil crisis has provided few threats, either direct or indirect, to New Zealand's security. However, as has been shown, New Zealand's prosperity and economic welfare objectives were threatened by the oil crisis. From available figures it appears that oil supplies to New Zealand were reduced most markedly in January and February, 1974, but after that point the supply situation eased considerably and no longer seems to be a major threat. The increased oil prices appear to have boosted New Zealand's inflation rate by about 2 or 3 percent. The price of premium grade petroleum has risen about 43 percent since October, 1973, and seems sure to increase again in early 1975.

The total effects of the increased oil prices may well add about \$200 million to New Zealand's import bill in the 1974-75 financial year. This increased oil bill will considerably worsen New Zealand's existing balance of payments problems. To meet the economic threats New Zealand has stepped up its trade contacts and interests in the Middle East since the oil crisis. With the massive surpluses being accumulated by the oil-producers the future prospects for trade in the Middle East appear excellent. It is doubtful if this trade interest in the Middle East would have developed so quickly without the oil crisis.

The oil crisis has established one important new fact of life: no longer can one afford to waste energy resources. The oil crisis has resulted in a considerable increase in activity in the search for, and development of, New Zealand's energy resources. The oil

crisis has forced the New Zealand Government to evolve a policy of state involvement in the search for, and development of, oil as well as providing added impetus for further exploration in an attempt to lower New Zealand's dependence upon imported oil supplies. New Zealand is well endowed with energy resources and the oil crisis has made quite clear the need to develop some of these resources. If the policy makers take this chance, the oil crisis may well prove to be a blessing in disguise for the future, planned development and efficient utilization of New Zealand's energy resources.

The oil crisis has threatened the international monetary system and has also threatened the stability of world trade. As has been noted, however, there is not a great deal that New Zealand can do to influence future developments in this area.

The use of oil as a political weapon by the Arab bloc in their struggle against Israel has been one of the major recent developments in the Middle East. As a result of Arab pressure, through the manipulation of oil supplies, many of the oil-consumers have been forced to reconsider some of their idealistic and identity objectives. New Zealand has been no exception here. New Zealand, more than 80 percent dependent upon imported Arab oil, has, to all appearances, altered its diplomatic stance towards the Middle East. New Zealand with its history of pro-Israeli sympathies before the oil crisis, has now been pushed to a more neutral or even-handed position. Considerations of future oil supplies may well have been one of the major reasons for this

slight shift in New Zealand's foreign policy. This slight shift in foreign policy has also been reflected in New Zealand's voting patterns in the UN since the oil crisis.

Having examined how New Zealand reacted to the oil crisis it is now necessary to try to match these reactions against the small-state theories. The small-state theories suggest that a small state is more vulnerable to pressure than a larger state in times of crisis. Accordingly, New Zealand's policies should have been influenced as a result of the Arab oil-pressure during the oil crisis. In theory, then, New Zealand's foreign policy should have changed from its pro-Israeli stance to a more pro-Arab stance.

In practice, the situation was not quite so straightforward. In fact, the Arab oil-producers appear to have applied little, or no, direct pressure upon New Zealand to change its foreign policy. There is very little evidence that the Arab oil-producers were even interested in New Zealand's policies. New Zealand was, however, subjected to the general reduction in oil supplies and this was the main form of direct pressure felt by New Zealand during the oil crisis. As a result of this pressure, the New Zealand Government appears to have altered its foreign policy, from a pro-Israeli stance to a more neutral position. Obviously, a small state such as New Zealand would not want to antagonize the Arab oil-producers any more than was absolutely necessary. Therefore, if a favourable reception by the Arabs required a slight foreign policy shift then this would be the most obvious course to follow, for a small state

with very little bargaining power. The New Zealand Government decided that such a small foreign policy shift was required in order to try to cushion the effects of the Arab oil-pressure. Overall, then, New Zealand would appear to have reacted in the manner suggested by the small-state theorists.

- 1) See Kennaway, op.cit., pp. 144-145.
- 2) See ibid., pp.105-117, for a discussion of New Zealand's regional role.
- 3) Quoted in The Press (Christchurch), 19 October, 1973.
- 4) The average monthly consumption for 1972 was 38 million gallons. In the first nine months of 1973 the average consumption was 40 million gallons a month. After October the monthly consumption rose to 44.8 million gallons. Reported in The Press (Christchurch), 1 March, 1974.
- 5) Quoted in The Press, (Christchurch), 29 March, 1974.

- 6) Mr Hogg's remarks, made during a panel discussion at the National Gas conference, were reported in The Press (Christchurch), 28 February, 1974.
- 7) Figures quoted in the Christchurch Star, 19 October, 1974.
- 8) Reported in The Press (Christchurch), 20 January, 1975.
- 9) Mr Freer quoted in The Press (Christchurch), 2 May, 1974.
- 10) R.J. Tizard, The Economic Situation, (Wellington, Government Printer, October, 1974), p.14.
- 11) Loc.cit.
- 12) A report by the Organization for Economic Co-operation and Development (OECD) calculated that the increased cost of oil added about 3 percent to the cost of living in the industrialized countries during 1974. The report was quoted in the Christchurch Star, 23 December, 1974.
- 13) New Zealand Institute of Economic Research, Quarterly Predictions, November, 1974), p.12.
- 14) Mr Rowling's estimate was reported in The Press (Christchurch), 19 March, 1974, and has not been subjected to much alteration since then.
- 15) See the Christchurch Star, 21 December, 1974.
- 16) Quoted in National Business Review, vol.4, no.11 (Issue 89), 17 April, 1974, p.1.
- 17) Christchurch Star, 2 October, 1973.
- 18) New Zealand Foreign Affairs Review, vol.24, no.6, June 1974, p.29.
- 19) NZFAR, vol.24, no.6, June 1974, p.30.
- 20) Figures from The Press (Christchurch), 9 August.

- 21) The Press (Christchurch), 30 September 1974.
This estimate was made just before the signing of the trade pact which has not really blossomed quite so dramatically as at first thought and the estimates appear to be a little optimistic.
- 22) Reported in The Press (Christchurch), 7 December, 1974.
- 23) Quoted in the Christchurch Star, 2 October, 1973.
- 24) NZFAR, vol.24, no.2, February, 1974, p.19.
- 25) NZFAR, vol.24, no.2, February, 1974, p.20.
- 26) NZFAR, vol.24, no.6, June, 1974, p.28.
- 27) Reported by The Press (Christchurch), 6 August, 1974.
- 28) Reported in The Press (Christchurch), 9 August, 1974.
- 29) Quoted in The Press (Christchurch), 12 November, 1974.
- 30) The prospects for future trade are discussed in Export News, vol.18, no.11, November, 1974, (Wellington, Department of Trade and Industry), pp.3-18.
- 31) The surveys were carried out by W.D. Scott and Company, a firm of Management Consultants.
- 32) The plans were reported in the Christchurch Star, 24 December, 1974.
- 33) Editorial comment in the Christchurch Star, 8 March, 1974.
- 34) The Report of the Ministry of Energy Resources, for the year ended 31 March, 1974, p.4.
- 35) See the Report of the Ministry of Energy Resources for the year ended 31 March, 1974, p.5.
- 36) Dr Maiden's remarks were reported in the Christchurch

Star, 6 December, 1973.

- 37) Mr Brunot's remarks were reported in the Christchurch Star, 13 November, 1974.
- 38) Quoted in The Press (Christchurch), 18 October, 1974.
- 39) Quoted in the Christchurch Star, 9 March, 1974.
- 40) Reported in The Press (Christchurch), 3 April, 1974.
- 41) Quoted in The Press (Christchurch), 24 December, 1974.
- 42) According to Mr R.M. O'Callahan, the general manager of the Natural Gas Corporation, one gallon of methanol has only a little over half the energy contained in the same quantity of petroleum-based fuel. This disadvantage is offset appreciably by its higher octane rating, its ability to burn more quickly and the lack of additives that can form deposits in combustion chambers and degradate lubrication oils. See 'Nationwide use of natural gas advocated', in Natural Gas, Winter, 1974, p.4.
- 43) The Report of the Ministry of Energy Resources, for the year ended 31 March, 1974, p.6.
- 44) The Role of Research and Development in New Zealand's Energy Economy, (Department of Scientific and Industrial Research, March, 1974), p.32.
- 45) Editorial comment in the Christchurch Star, 1 May, 1974.
- 46) Energy in New Zealand, (Auckland, University of Auckland, 1974), p.11.
- 47) Figures quoted from Chandler, op.cit, p.9.
- 48) The IMF Survey, 20 January, 1975, pp.17-32, has the details.

- 49) Quoted in The Press(Christchurch), 18 January 1975.
- 50) NZFAR, vol.24, no.1, January, 1974, p.33.
- 51) NZFAR, vol.24, no.6, June, 1974, p.50.
- 52) NZFAR, vol.24, no.2, February, 1974, p.19.
- 53) Quoted from The Press (Christchurch), 18 January, 1974.
- 54) The Press (Christchurch), 20 December, 1974.
- 55) See the Sunday News, 17 February, 1974.
- 56) See the introduction to the Report of the Ministry of Foreign Affairs, for the year ended 31 March, 1973.
- 57) Private information.
- 58) The Report of the Ministry of Foreign Affairs, for the year ended 31 March, 1973, p.42.
- 59) Loc.cit.
- 60) The Report of the Ministry of Foreign Affairs, for the year ended 31 March, 1974, pp. 26-27.
- 61) See R.R. MacIntyre, 'New Zealand and the Energy Crisis', in New Zealand Monthly Review, May, 1974, pp. 15-17.
- 62) Month in the United Nations: October, 1974, mimeograph, UN Association.
- 63) An Israeli Foreign Ministry spokesman, quoted in the Christchurch Star, 16 October, 1974.
- 64) Quoted in The Press (Christchurch), 16 October, 1974.
- 65) Reported in The Press(Christchurch), 5 November, 1974.
- 66) Quoted in The Press (Christchurch), 15 November, 1974.
- 67) Loc.cit.
- 68) Loc.cit.

- 69) The Press (Christchurch), 23 November, 1974.
- 70) Loc.cit.
- 71) Reported in the Christchurch Star, 23 November 1974.
- 72) Loc.cit.
- 73) Loc.cit.
- 74) Loc.cit.
- 75) Reported in the Christchurch Star, (Sports Edition)
23 November, 1974.
- 76) New Zealand's explanation of vote, mimeograph,
Ministry of Foreign Affairs.

CHAPTER 4

WORLDWIDE REACTIONS TO THE OIL CRISIS

That New Zealand reacted in very much the way one would expect from the traditional small-state model does not, in itself, prove the model to be correct. To be valid the model should also be able to account for the reactions of other small (and, by implication, large) states to the same set of variables. In order to test the small-state model I have made a survey of the reactions of some twenty-five other states to the oil crisis. The survey, while rather superficial, will still provide a useful basis for testing the small-state model.

I will attempt to establish each state's position vis-à-vis the Arab-Israeli conflict both before and after the 1973 outbreak. A comparison will then be made of the individual foreign policies and I will attempt to draw some conclusions about the apparent validity of the small-state model.

The first basis for classification was the division into small and large states. My survey includes thirteen large states and thirteen small states. I have also classified each country as either developed or underdeveloped (see Table 12.a). While these classifications may be disputed they are based on my own interpretation of the definition of a small state used throughout this study (see pp. 1-2). 1.

Having classified each country in this manner it is now necessary to establish each country's foreign policy towards the Middle East before the 1973 conflict and the

Table 12 (a)

Size classification of states

Small, developed	Small, underdeveloped
Australia	Kenya
Belgium	Philippines
Denmark	Portugal
Netherlands	Tanzania
New Zealand	Zambia
South Africa	
Spain	
Rhodesia	
Large, developed	Large, underdeveloped
Japan	Brazil
United Kingdom	China
West Germany	India
Italy	Pakistan
USA	Turkey
Canada	
USSR	
France	

ensuing oil crisis. Based on a combination of voting during the 1967 Fifth Emergency Special Session of the UN General Assembly, 2, and the actual classifications applied to certain countries by the Arab oil-producers, I have arbitrarily classified the twenty-six countries into four main categories: pro-Israel, pro-Arab, neutral and positive neutral (i.e. those neutral countries actively engaged in the pursuit of a Middle East settlement). Based on a wide reading of events since the oil crisis erupted, as well as UN voting behaviour - the most significant vote being the General Assembly decision to invite the PLO to address the UN, 3, - and, where possible, the actual Arab classifications, 4, I have also classified each country's foreign policy towards the Middle East after the oil crisis (See Table 13).

Having classified each country in this manner I have tried to test the small-state theory against the actual reactions. In order to do this I have introduced

Table 13

Comparative Foreign Policy Positions (1967 and 1974)

	1967	1974
Large, developed, changed foreign policy		
Japan	pro-Israel	pro-Arab
United Kingdom	pro-Israel	pos. neutral/pro-Arab
West Germany	pro-Israel	pos. neutral/pro-Arab
Italy	pro-Israel	pos. neutral/pro-Arab
Large, developed, unchanged foreign policy		
U.S.A.	pro-Israel	
Canada	pro-Israel	
U.S.S.R.	pro-Arab	
France	neutral/pro-Arab	
Large, underdeveloped, changed foreign policy		
Brazil	pro-Israel	pro-Arab
China	neutral	pro-Arab
Large, underdeveloped, unchanged foreign policy		
India	pro-Arab	
Turkey	pro-Arab	
Pakistan	pro-Arab	
Small, developed, changed foreign policy		
Belgium	pro-Israel	pos. neutral/pro-Arab
Australia	pro-Israel	pos. neutral
New Zealand	pro-Israel	neutral
Denmark	pro-Israel	neutral/pro-Israel
Small, developed, unchanged foreign policy		
Netherlands	pro-Israel	
South Africa	pro-Israel	
Rhodesia	pro-Israel	
Spain	pro-Arab	
Small, underdeveloped, changed foreign policy		
Kenya	pos. neutral	pro-Arab
Philippines	pro-Israel	pro-Arab
Small, underdeveloped, unchanged foreign policy		
Tanzania	pro-Arab	
Zambia	pro-Arab	
Portugal	pro-Israel	

four extra variables. These four variables are (1)

oil's share of primary energy, (2) the level of imported

oil, (3) the level of imported oil from the OAPEEC countries, and (4) the presence of pressure to change a foreign policy.

The first variable is oil's share of the primary energy market in each individual country. For the purpose of this study I have used figures from three major sources. One source was the OECD Economic Outlook, no.14, of December, 1973. Another major source used was the 1973 BP Statistical Review of the World Oil Industry. The third major source used was the World Map of the Energy Market, which was published in the May, 1974 issue of the Geographical Magazine. Where accurate figures were available I have used 60 percent as the dividing line between a high proportion of the primary energy market and a low proportion of the primary energy market. In only two cases, Tanzania and Zambia, was it necessary to make an informed estimate at oil's share of the primary energy market. The classifications arrived at are included in Table 14.

I have also classified each country in terms of its level of imported oil. Using the three previous sources plus Toward a National Materials Policy - World Perspective, 5, I have classified each state which imported more than 60 percent of its crude oil requirements as a high level oil-importer, and those under 60 percent have been classified as low-level importers (See Table 14).

In addition, I have classified each state in terms of the level of OAPEEC oil it imports. An additional source used here was the International Institute for Strategic Studies' Strategic Survey, 1973. For this category I have classified a 50 percent or higher

dependence upon OAPC oil as being a high level of dependence (see Table 14).

Table 14

OIL'S ROLE IN THE VARIOUS ENERGY ECONOMIES

Country	Oil as % of primary energy	% oil imported	% imported oil from OAPC states
Japan	high-80.0	high- 99.5	low- 40.4 (Iran)
United Kingdom	low- 52.0	high-100	high-73.8
West Germany	low- 58.5	high- 93.0	high-71.3
Italy	high-78.6	high- 98.8	high-77.9
USA	low- 47.1	low- 16.1	low- 19.1 (Canada, Caribbean)
Canada	low- 51.6	low- 0.0 (net exporter of oil)	low- 0.0
USSR	low- 33.5	low (self-sufficient, but imports Arab oil for political reasons)	low
France	high-71.0	high- 97.7	high-74.1
Brazil	high-84.0	high- 68.2	low- n.a. (Caribbean)
China	low- 0.9	low (self-sufficient)	low
India	low- 26.0	high- 68.5	low- 22.0 (Iran)
Turkey	high-66.0	high- 62.0	high- n.a.
Pakistan	low- 52.0	high- 99.0	high- n.a.
Belgium	high-63.7	high-100	high-69.2
Australia	low- 49.9	low- 30.0	high-70.0
New Zealand	high-62.0	high- 99.9	high-82.8
Denmark	high-88.8	high-100	high-56.6
Netherlands	low- 54.2	high- 97.0	High-72.4
South Africa	low- 19.5	high-100	high- n.a.
Rhodesia	low- 14.8	high-100	high- n.a.
Spain	high-70.0	high- 99.1	high- n.a.
Kenya	high-90.0	high-100	low-n.a.(Iran)
Philippines	high-99.0	high-100	high- n.a.
Tanzania	high- n.a.	high- n.a.	high- n.a.
Zambia	high- n.a.	high- n.a.	high- n.a.
Portugal	high-83.3	high-100	low- n.a. (Iran, Angola)

Figures are predominantly for 1971 and 1972

N.a.= figures not available.

SOURCES: OECD Economic Outlook, December, 1973
BP Statistical Review of the World Oil Industry, 1973.
Geographical Magazine, May, 1974
Toward a National Materials Policy,
 January, 1973
Strategic Survey, 1973

In order to calculate the effect of the oil weapon it was necessary to establish which of the states under survey were in fact subjected to Arab oil-pressure. In this context 'oil-pressure' was defined as a threatened or actual cutback in supplies by the Arab oil-producers. I have grouped those countries which were specifically not subjected to Arab oil-pressure and have treated the remaining countries as being subjected to oil-pressure. Of the twenty-six countries, eleven were not subjected to the Arab oil-pressure(see Table 15). Canada, being

Table 15

THE PRESENCE OF ARAB OIL-PRESSURE

Japan		Pressure
United Kingdom		Pressure
West Germany		Pressure
Italy		Pressure
USA		Pressure
Canada	No	Pressure
USSR	No	Pressure
France	No	Pressure
Brazil		Pressure
China	No	Pressure
India	No	Pressure
Turkey	No	Pressure
Pakistan	No	Pressure
Belgium		Pressure
Australia		Pressure
New Zealand		Pressure
Denmark		Pressure
Netherlands		Pressure
South Africa		Pressure
Rhodesia		Pressure
Spain	No	Pressure
Kenya	No	Pressure
Philippines		Pressure
Tanzania	No	Pressure
Zambia	No	Pressure
Portugal		Pressure

totally self-sufficient in oil, was not subjected to the Arab oil-pressure. China was exempted from the pressure for much the same reason. The USSR, as the Arab bloc's superpower ally, was not subjected to Arab oil-pressure. France, which had developed strong friendship

ties with the Arab nations under De Gaulle's Presidency, was also exempted from any real oil-pressure. India, Kenya, Tanzania, and Zambia had all been supporters of the Arab nations before the oil crisis and were exempted from the oil-pressure. Spain, which has never recognized the State of Israel, was also not subjected to Arab oil-pressure. Turkey and Pakistan, because of their Islamic 'brother' relationships with the Arab bloc escaped the Arab oil-pressure.

Having established the variables involved I have then tried to find any correlation which may exist. The most obvious correlation suggested by the small-state theory is that there is a direct relationship between small size and vulnerability to pressure (see Table 16). Of the large states surveyed about 46 percent (6/13) had a different Middle Eastern foreign policy in 1974 compared with 1967. However, one country, China, is self-sufficient in crude oil production, and its policy change was the result of a political and ideological decision rather than Arab oil-pressure. 6. Seven of the large states surveyed had retained their 1967 stance after the oil crisis. However, of the seven large states only the USA was actually subjected to Arab oil-pressure. This means that of the large states surveyed six were subjected to the Arab oil-pressure. Of the six, five countries changed their Middle Eastern foreign policies. This represents an 83 percent change in foreign policies of large states when subjected to pressure. 7. Of the small states studied 46 percent had differing Middle Eastern policies in 1967 and 1974. Of these, only one, Kenya, could be said to have escaped

Table 16.

CORRELATION OF SIZE, POLICY CHANGE, AND OIL-PRESSURE

SIZE	FOREIGN POLICY	OIL-PRESSURE
Large (n=13)	6 changed-Japan	Yes
	-United Kingdom	Yes
	-West Germany	Yes
	-Italy	Yes
	-Brazil	Yes
	-China	No
	7 Unchanged-USA	Yes
	-Canada	No
	-USSR	No
	-France	No
	-India	No
	-Turkey	No
	-Pakistan	No
Small (n=13)	6 changed-Belgium	Yes
	-Australia	Yes
	-New Zealand	Yes
	-Denmark	Yes
	-Kenya	No
	-Philippines	Yes
	7 unchanged-Netherlands	Yes
	-South Africa	Yes
	-Rhodesia	Yes
	-Portugal	Yes
	-Tanzania	No
	-Zambia	No
	-Spain	No

the Arab oil-pressure. This was largely because of Kenya's close affiliation with the African bloc of states which had given their ideological support to the Arab bloc before the oil crisis. Of the seven small states which had unchanged Middle Eastern policies in 1967 and 1974 three - Tanzania, Zambia, and Spain - were not subjected to Arab oil-pressure. This means that of the small states surveyed, nine were subjected to Arab oil-pressure. Of the nine, five (55%) changed their Middle Eastern foreign policies, and four (45%) resisted the pressure to change.

From these figures, then, it appears that there was no strong correlation between the size of a country

and its vulnerability to the Arab oil-pressure. In fact whereas five of the six (83%) large countries subjected to the Arab oil-pressure changed their foreign policies only five of the nine (55%) small states subjected to the Arab oil-pressure changed their foreign policies. This is rather contrary to what one would expect from the small state model, which suggests that small states have a lower resistance level to pressure than larger states.

As the expected strong correlation between size and vulnerability was not present during the oil crisis then it is possible that some alternative correlation may have existed. Another possible correlation is between the proportion of oil as a primary energy source (high or low), and vulnerability to pressure. In fourteen of the twenty-six nations surveyed oil provided a high proportion of the primary energy requirements. Of those fourteen countries, eight (57%) had changed their foreign policies towards the Middle East after 1967 (see Table 17). Of the twelve countries where oil provides a low proportion of the primary energy requirements, only four (33%) recorded changes in their Middle Eastern policies after 1967.

Table 17

CORRELATION OF OIL'S SHARE OF PRIMARY ENERGY REQUIREMENTS,
POLICY CHANGE, AND OIL PRESSURE

Oil's share of primary energy	Policy	Oil-pressure
High (+60%)	8 changed	7 pressured; 1 unpressured
	6 unchanged	1 pressured; 5 unpressured

cont.

Table 17(cont..)

	Policy	oil-pressure
Low (-60%) (n=12)	4 changed	3 pressured; 1 unpressured
	8 unchanged	4 pressured; 4 unpressured

Of the eight states where oil provides a high proportion of the primary energy requirements and which were subjected to oil-pressure, seven (87%) had changed their 1967 Middle Eastern policies by 1974. On the other hand, of the seven countries where oil provides a low proportion of the primary energy requirements, only three (43%) had altered their 1967 Middle Eastern policies.

From these figures, it appears that there may well be a positive, direct correlation between a high oil share of primary energy requirements and vulnerability to oil-pressure.

An examination of the level of oil imported and the vulnerability to change when subjected to pressure also shows an interesting correlation (see Table 18).

Table 18

CORRELATION OF THE LEVEL OF IMPORTED OIL, POLICY CHANGE,
AND OIL PRESSURE

Level of oil imported	Policy	Oil-pressure
High (+60%) (n=21)	10 changed	9 pressured; 1 unpressured
	11 unchanged	4 pressured; 7 unpressured
Low (-60%) (n=5)	3 changed	1 pressured; 2 unpressured
	2 unchanged	1 pressured; 1 unpressured

Of those states with a high dependence upon imported oil supplies (n=21), about 50 percent changed their

Middle Eastern policies between 1967 and 1974. However, eight of the countries with a high dependence of imported oil were not subjected to oil-pressure. Of the remaining thirteen countries which were subjected to pressure, nine (69%) did in fact change their Middle Eastern policies. This is a significant, positive correlation figure, despite the fact that the survey has not included a sufficient number of countries with a low dependence upon imported oil supplies. The figures appear to suggest that the higher the country's dependence upon imported oil, the greater the likelihood of a policy change when subjected to oil-pressure.

The oil crisis was, however, mainly an Arab oil crisis. It is interesting to note, then, the correlation between levels of imported OAPEC oil supplies and Arab oil-pressure (see Table 19). Of the eleven countries which had a high level of dependence upon OAPEC oil and were subjected to the Arab oil-pressure, eight (73%) countries changed their Middle Eastern policies. This is an even higher correlation than the 69 percent of countries with a high level of imported oil which changed their Middle Eastern policies. Once again, because of the low number of countries surveyed with a low level of dependence upon OAPEC oil and which were subjected to the Arab oil-pressure (4) the figure of a 50 percent change of foreign policies is rather inflated and less significant.

Nevertheless, from these statistics it appears as though, while no positive, direct correlation between size and vulnerability to oil-pressure existed during the oil crisis, some other significant correlations did

Table 19

CORRELATION OF THE LEVEL OF IMPORTED OAPEC OIL SUPPLIES,
POLICY CHANGE, AND OIL-PRESSURE

Level of OAPEC oil imported	Policy	Oil-pressure
High (+50%) (n=17)	8 changed	8 pressured; 0 unpressured
	9 unchanged	3 pressured; 6 unpressured
Low (-50%) (n=9)	4 changed	2 pressured; 2 unpressured
	5 unchanged	2 pressured; 3 unpressured

exist. For instance, this survey suggests that there may well have been a significant, positive correlation between a high oil share of primary energy requirements and vulnerability to oil-pressure. This survey also suggests that while there was a positive, correlation between a high level of oil imports and vulnerability to oil-pressure, there may well have been an even more significant, positive correlation between a high level of imported OAPEC oil and vulnerability to Arab oil-pressure.

From this survey, then, it appears that, while varying degrees of policy shifts have occurred as a result of the oil crisis, the policy shifts have not followed a small state/large state pattern. Indeed the Arab oil-producers never intended forcing mainly the small states to alter their foreign policies towards the Middle East. In fact, the oil weapon was aimed more specifically at the larger, more influential states.

The use of oil as a weapon required a conscious decision from the OAPEC countries to form a coalition. Given the heterogeneous nature of the Arab states, such a coalition could only occur if it was the result of

some great social force. That social force was the outbreak, in October, 1973, of the 4th Arab-Israeli War. This is the Arab v. Israel part of the strategic interaction model (Figure 1). In an endeavour to bring pressure to bear upon Israel a policy of oil production cutbacks and, in some cases, a total boycott, was decided upon by the Arab bloc. This led to the Arab oil-producers classifying the rest of the world into 'friends', 'neutrals', and 'enemies'. This classification can be further refined if one divides the neutrals and the positive neutrals (ie. those actively engaged in the pursuit of a Middle East settlement). Oil supplies were regulated according to classification, with (in theory at least) the friendly nations receiving minimal inconvenience and enemies suffering a total boycott. The Arab bloc hoped that in this way they would be able to squeeze favourable concessions out of previously unfavourable situations. This would be reflected by an upward shift in the scale of 'friendliness' towards the Arab states, as outlined in part (a) of the strategic interaction model.

The oil weapon was intended to have a two-tiered effect: direct and indirect (or filtered). The direct effect is illustrated in diagram (b) of the strategic interaction model. The Arab bloc hoped that by applying pressure on the oil consumers - especially the US, the principal guarantor of Israel's existence - that direct pressure would, in turn, be brought to bear on Israel. By denying the US the supplies of oil which it needed to meet its growing demand it was hoped that the average US citizen, denied some of the comforts

Figure 1: Strategic Interaction Model for the Oil Crisis

(a) Friendship effect (--->) upon application of pressure(→)

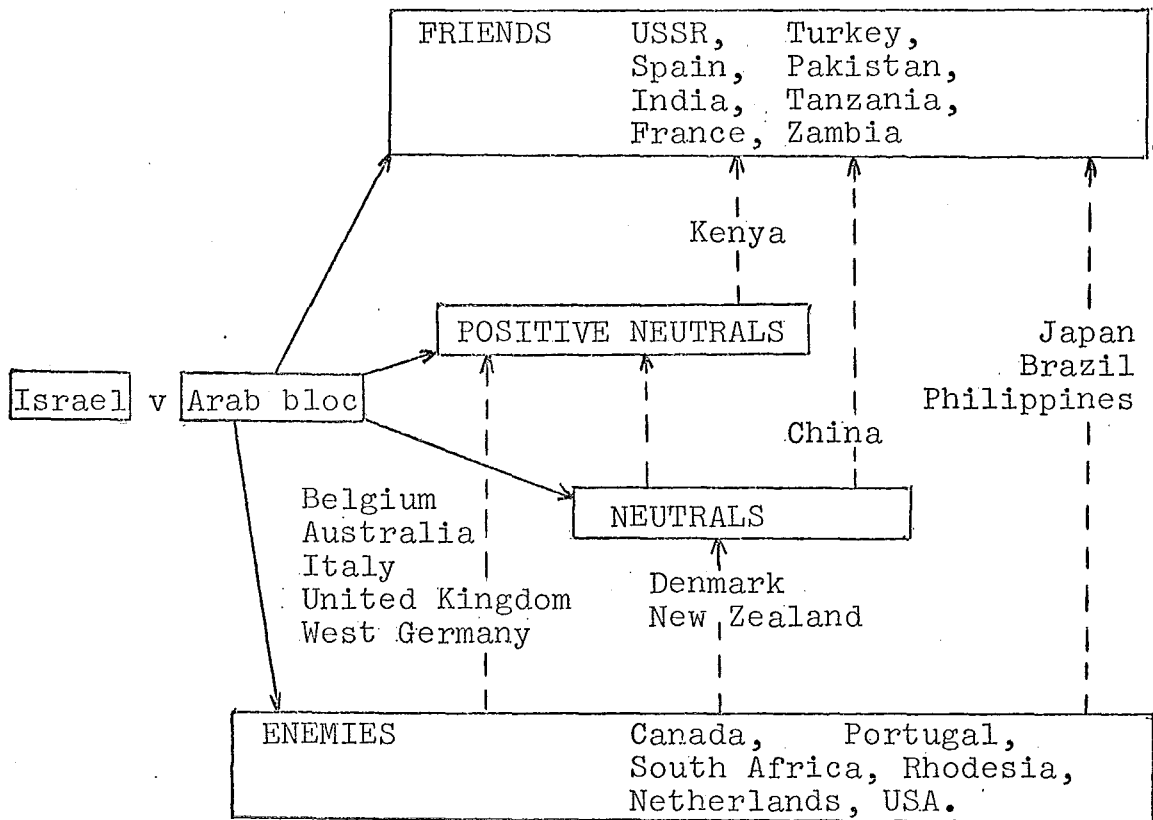
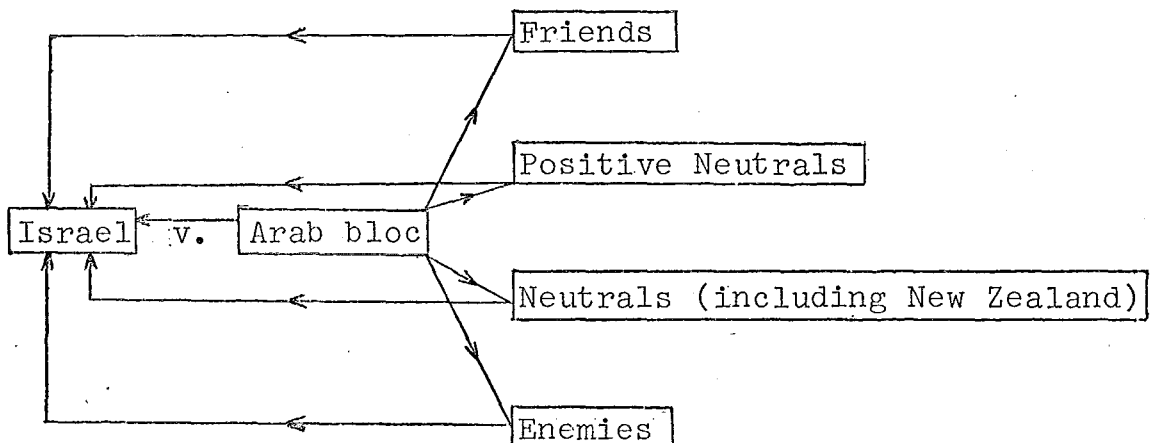


Figure 1: Strategic Interaction Model for the Oil Crisis

(b) Direct effect upon application of pressure (→)



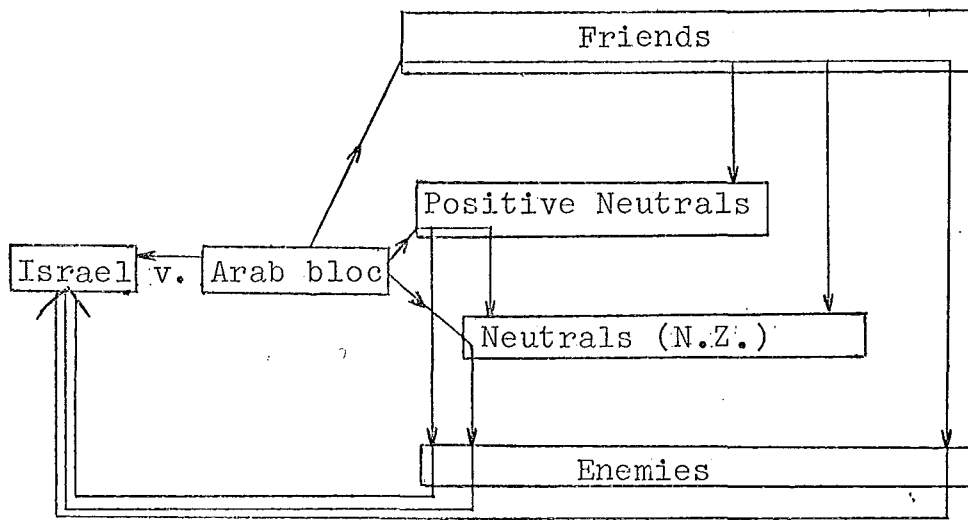
that only oil can supply, would urge his government to work genuinely for peace in the Middle East and thereby ensure the future flow of Arab oil to the US market. Similarly, by denying the other oil-consumers the many comforts derived from oil the Arab bloc hoped that the oil-consumers would apply pressure on Israel for a

settlement. It was intended, then, that not only would the oil-consumers become more 'friendly' with the Arab oil-producers, but they would also pressure Israel into a lasting settlement. It is true that many of the oil-consuming nations have become more 'friendly' towards the Arab bloc since the oil crisis. However, with perhaps the exception of the US, there has not been much effective pressure for a settlement put on Israel. In fact, the direct pressure from the application of the oil weapon is more theoretical than real. The truth of the situation is that only the US has any real ability to pressurize Israel's behaviour. For the other oil-consumers "assorted declarations of support for the restoration of Arab lands (which some found humiliating, though they were largely repetitions of UN resolutions to which these governments were already committed), plus promises of trade and technical assistance, were the only responses they could offer. They had no responsibility for the American commitment to Israel; nor indeed any power to influence it".⁸ This may not be an entirely comfortable reality for all directly concerned; it is probably quite humiliating for some of the Arab oil Ministers. But it is, nevertheless, a reality. This miscalculation of actual effects is one major reason why the oil weapon, in terms of a pressure induced settlement, has not been very successful. While the overall level of success of the oil weapon is open to debate, I think it is fair to say that it did at least lubricate the way for more meaningful discussions on the Middle East situation.

As diagram (c) of the strategic interaction model

Figure 1: Strategic Interaction Model for the Oil Crisis

(c) Filtered effect upon application of pressure (→)



illustrates, the oil weapon was also intended to have a filtered effect. The oil weapon was an attempt to spread the effects of the conflict as widely as possible in order to provide the countries importing Arab oil with a stake in the future stability of the Middle East, and to persuade them to safeguard their stake by applying maximum pressure on the country which holds the key to any solution of the problem, namely the United States. By denying Japan, Europe, and other countries varying proportions of their requirements of Arab oil it was hoped that the governments of those states would, as a matter of self-interest, bring maximum pressure to bear on the US to stabilize the Middle East situation. It should be noted here that the Arab oil weapon was specifically aimed at the larger more influential states. The oil embargo on Holland, a small state, was imposed because Holland openly co-operated with the US during the 4th Arab-Israeli War, rather than because Holland was a small state. By highlighting the worldwide dependence upon Middle Eastern

oil, the Arab bloc hoped to gain the upper hand in the bargaining game and, therefore, apply indirect pressure on Israel, through the US, for a settlement.

There is no doubt that the Arab oil-producers have gained the upper hand in the oil bargaining game. However, once again the Arab oil Ministers appear to have overestimated the strength of their weapon. For a time very considerable economic and political pressure was being exerted on what appeared to be a structure of leverage that might have been expected to achieve quick results. It did not. The levers did not appear to be connected up. As has been pointed out, only the US has any real leverage on Israel, and even American pressure is not guaranteed to alter Israel's policies. The Arabs, initially at least, failed to realize that pressure on Europe's and Japan's oil supplies would not exert some indirect pressure on the US. The Arabs failed to realize that the US does not necessarily behave in the manner desired by, or called for by its allies. In reality, the Arab pressure, if anything, tended to separate the US from its European allies. 9.

"Faced with the major 'supply shock' of the October 1973 oil embargo and the overall cutback in Arab oil production the immediate reaction of practically every importing country was to engage in a competitive scramble for oil supplies, coupled with offers to adapt its Middle East policy to Arab demands, and promises of all kinds of financial inducements". 10. In fact, the American Secretary of State, Dr Kissinger, has had immense problems trying to get the Western oil-consumers together let alone feel any significant amount of pressure from

them. Even if such pressure could be exerted on Israel, there is no guarantee that Israel would readily submit to the American pressure. The United States, deploying all Dr Kissinger's formidable powers of persuasion as well as the influence of Israel's only real friend and indispensable military supplier, took months to achieve disengagement, even in Sinai.

There is little doubt that the oil weapon has had the desired 'friendship effect'. However, the upward movement in the scale of 'friendliness' may be less significant than first appearances might indicate. A pressure induced 'friend' may well prove to be less reliable in times of crisis than a 'natural friend'. The effectiveness of the intended direct pressure on Israel as a result of the oil crisis has been somewhat less than the Arab bloc anticipated. In fact, only the US has any real leverage on Israeli behaviour. It is clear that the US has been aroused by the danger of the situation to press much more actively for negotiations between the Arab states and Israel. It would also seem that the US has put more pressure on Israel than in the past. However, even 'Miracle Man' Kissinger has not been able to achieve much success in terms of a lasting settlement. The Arab oil-producers also appear to have overestimated the 'indirect' effects of the oil weapon. While it is true that the US has the necessary leverage on Israel it does not necessarily follow that pressure on the US will result in pressure being applied to Israel. The US does not always accept the advice of its allies, and even if it did, Israel is hardly the sort of docile state which would readily

accept the American pressure.

Nevertheless, it would be unfair to claim that the oil weapon was a total failure. The Arab oil-pressure has tended to isolate Israel diplomatically. The oil-pressure has also been responsible for the initiation of some negotiations for a settlement. One observer even noted that "for the first time in many years it is no longer foolish to hope, if not for a definitive settlement, at least for something more durable than a ceasefire. And it seems doubtful whether anything less than the double shock of a war and an oil crisis would have sufficed to produce such a result". 11. But the negotiations have been, inevitably, very complex and slow, and unless some further settlement is reached before the end of May, when the current term of the UN Observer force on the Syrian-Israeli front expires, then the Middle East conflict may well erupt again. A side effect of the negotiations which have taken place has been the wider recognition of the Palestinian refugee 'problem' and the unprecedented opportunity given the PLO to address the UN General Assembly. The oil crisis, or more specifically the oil price rises, has also been very beneficial, economically for the oil-producers. It is estimated that the oil-producing countries have accrued surplus revenues of about US\$60 billion in 1974 alone. 12. However, the presence of such high surpluses has led to as many problems as benefits. 13.

Overall, then, the Arab oil embargo has hurt those it intended to hurt, but not as much as had presumably been hoped. It is very significant that none of the

states under full embargo has a heavy import dependence in energy. 14. Countries such as Japan and most of Europe have a higher dependence on imported oil and it was these countries whom the Arab restrictions hurt most. The other heavy sufferers have been the countries of the underdeveloped world, many of whom claim a political 'friendship' with the Arabs. These underdeveloped nations face enormous balance of payments problems as a result of the increased oil prices since October, 1973. 15. In sum, then, the oil weapon, while not achieving its main political aim - Israeli withdrawal from the occupied territories - has had side effects which both benefit the Arab states (increased revenues) and also hurt many of the Arab's friends - the underdeveloped countries - as well as threatening the laboriously built structure of the world economy.

1) In borderline cases I have found a division of 30 million population, and \$1,000 GNP useful. The selection of an equal number of small and large, developed and underdeveloped states was purely arbitrary and was made solely to ensure a wide spectrum of countries surveyed.

2) See the United Nations Monthly Chronicle, vol.4, no.7, July, 1967, pp.32-79.

3) Month in the United Nations, October, 1974 mimeograph, UN Association.

4) See Itayim, op.cit., p.92.

5) Toward a National Material Policy - World Perspective, Second Interim Report, January 1973, (Washington, National Commission on Materials Policy, 1973.

- 6) See Y.Koide, 'China's Crude Oil Production', in Pacific Community, April, 1974, pp.462-470, and L. Goodstadt, 'Oil provides China's solution', in Far Eastern Economic Review, 13 December, 1974.
- 7) Although percentages have been used throughout this survey, it must be remembered that percentages can tend to overinflate a trend, especially when only a small number of elements are in the surveyed set. Therefore, the percentage figures are general indicators only, and this is especially so in this survey where the margin for error is quite considerable.
- 8) J.E. Hartshorn, 'A Diplomatic Price for Oil?', in Pacific Community, April, 1974, p.370.
- 9) See W.J. Levy, 'World Oil Co-operation or International Chaos', in Foreign Affairs, July, 1974, pp.690-713, and L. Turner, 'The European Community: Factors of Disintegration', in International Affairs(UK), July, 1974, pp.404-415.
- 10) Levy, op.cit., p.696.
- 11) C. Issawi, 'Checking on the consequences of the oil squeeze by Arab states', in International Perspectives, March/April, 1974, p.11.
- 12) Levy, op.cit., p.691.
- 13) See R. Mabro and E. Monroe, 'Arab wealth from oil: problems of its investment', in International Affairs (UK), January, 1974, pp.15-27, and F.A. Saleh, 'Putting oil revenues in their proper context', in Euromoney, October, 1974, pp.79-89.
- 14) See Hartshorn, op.cit., p.369.
- 15) See R. Krymm, 'The Economic Impact of Oil Prices' in The World Today, July, 1974, pp.294-305.

CONCLUSIONS

There are several interesting points which have arisen from this study. The first major point was that New Zealand, in the oil crisis situation, appeared to act in a manner very much in keeping with what the small-state theories would suggest. The small-state theories place a heavy emphasis on the fact that small states are less able to resist pressure than larger states. The theories maintain that, when subjected to pressure to change policies, small states change more quickly than do the larger states. Translated into the terms of the Arab oil crisis, this means that when subjected to Arab oil-pressure a small state, such as New Zealand, should more readily adapt its policies to become more in line with the policies desired by the pressure applicators, which in this study were the Arab bloc.

My research has established that New Zealand was not one of the prime targets of the Arab bloc. As a result New Zealand did not appear in any serious danger of being subjected to a total oil embargo. However, New Zealand was subjected to a significant reduction in supplies (about 10 percent) and was also subjected to the increased prices demanded for crude oil. Consequently, New Zealand did suffer an oil crisis. My research has shown that New Zealand's crisis was initially one of oil supplies, and later one of increased oil prices. About 60 percent of New Zealand's primary energy requirements are derived from petroleum and New Zealand has a high dependence (82 percent) on oil imported from OAPEC countries. It was in these circumstances that New Zealand was subjected to the Arab oil-pressure.

In this context it became clear that the New Zealand Government had to take some steps in an effort to safeguard New Zealand's oil supplies. In this study I have examined in some detail the variety of measures taken. From this it appears that the New Zealand Government, in an endeavour to ensure the continued future supplies of oil has slightly altered New Zealand's foreign policy. My research indicates that New Zealand has altered its traditional pro-Israeli stance to a more neutral position on Middle Eastern matters. I think it is fair to say that the Arab oil-pressure has been responsible for at least some of this foreign policy change.

The second major finding of this study came out of the reactions of some twenty-five other states to the oil crisis. This part of my research indicated that no very strong size/vulnerability to pressure correlation existed during the oil crisis. In fact my survey suggested that the most positive correlation existed between the dependence on imported Arab oil and vulnerability to pressure during the oil crisis. The two classic examples here were Japan and the Netherlands. Japan, a large state capitulated very quickly to the Arab oil-pressure. This was not too surprising when one considers that Japan imports virtually all of its oil requirements. It also has to be stated that oil provides Japan with more than three-quarters of the energy used in any of its varied forms - not to mention that it is the basis upon which a very substantial petro-chemical industry has mushroomed to international proportions over the years. It should be noted here that although Iran, which did not engage in the oil embargo, is Japan's largest single oil supplier - 43 percent in 1971, 1 - the Arab countries supplied

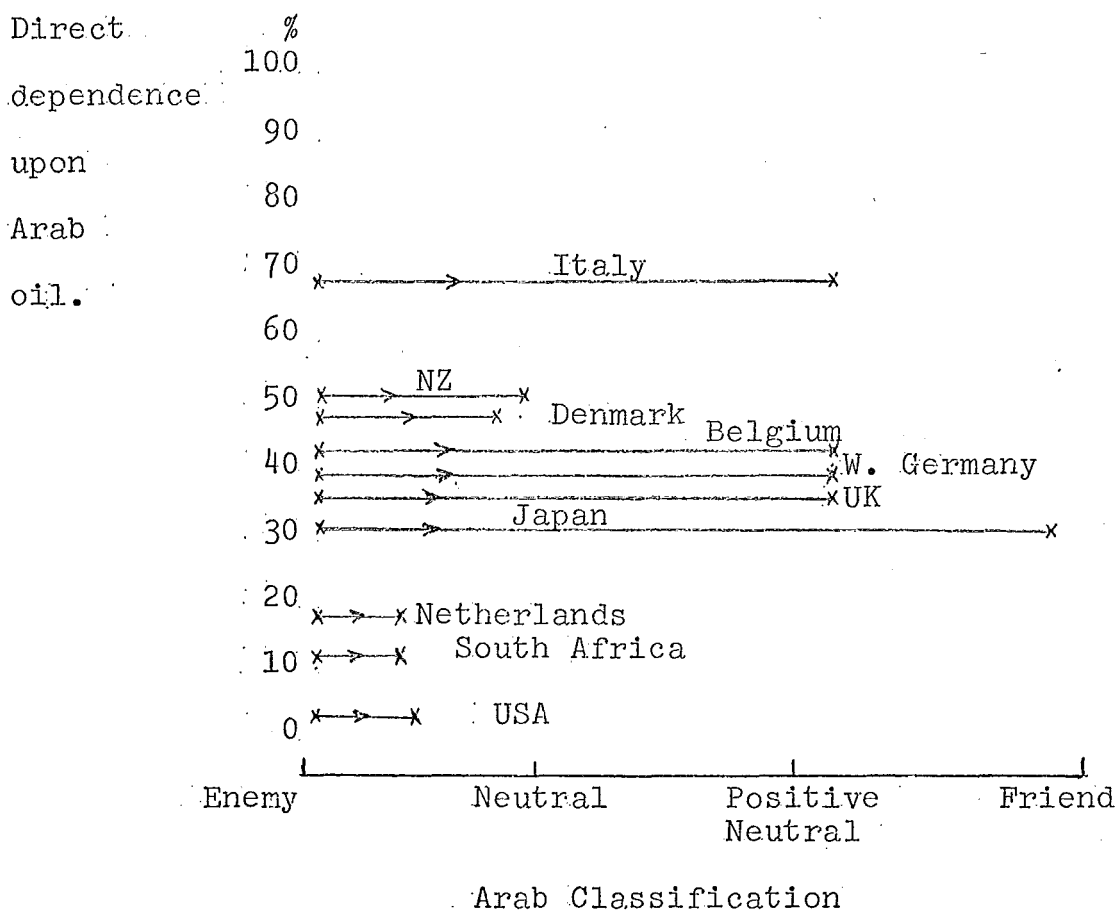
approximately the same proportion of Japan's requirements. In the light of these facts it is easy to see why the Japanese authorities were so alarmed when the prospect for an oil shortage loomed as an immediate threat. Their reaction was swift. Oil use was cut back (dim-outs in the cities were brought about, though it was never necessary to resort to part-time working in the factories) and new supply sources were sought. Meanwhile, on the diplomatic front a quick reversal of position was announced in relation to the Arab-Israeli dispute. This proved successful in winning, in late December, 1973, the reclassification of Japan as a 'friendly' nation. In resuming good relations with Japan, the Arab oil states were undoubtedly quite aware of the help they could expect for their own development ambitions, as quid pro quo for assurances on the supply of oil; several such understandings have duly emerged. 2.

The oil crisis policy of the Netherlands, a small state, provides a marked contrast with Japan. The Netherlands was singled out as a collaborator with Israel and was subjected to the extreme Arab oil-pressure, a total embargo. The Netherlands imports about 97 percent of its oil, and by far the largest proportion, 72 percent, 3, comes from the Arab countries. The Netherlands, however, maintained its traditional policy of friendship with Israel. Superficially at least, it appears as though the Netherlands was able to resist the extreme Arab oil-pressure. However, "local Dutch consumption normally accounts for no more than about a quarter of the crude (oil) moving into Rotterdam".4. Thus, while the Netherlands is still technically a high-level OAPEC oil-importer, only

about 24 percent of its oil imports are for direct Dutch consumption. The remainder is refined, mainly in Rotterdam, and then re-exported. As a result the Netherlands has a relatively low direct dependence upon OAPEC oil. Where the oil embargo did affect the Netherlands was in the oil industry's general contribution to the country's exports and industrial activity. Overall, though, the Netherlands possesses a rather stronger bargaining position than initial appearances might tend to indicate, and in fact the Netherlands "is close to self-sufficiency in energy, almost a net exporter".⁵ Given these circumstances, then, it was not surprising that the Netherlands was able more easily to resist the Arab oil-pressure than was a more heavily dependent country such as Japan.

These two examples, allied with the findings of the survey of the twenty-six nations, have led me to hypothesize that, contrary to most small-state theories, size was not, and is not, the key factor determining a state's reaction(s) in a crisis situation. Schelling argues that "most conflict situations are essentially bargaining situations",⁶ and I believe that one must consider the oil crisis (and most other crises) in this manner also. As a result I have formulated an alternative, but still rather tentative, model (Figure 2). The model is based on two closely related hypotheses. The first suggests that with an increasing dependence upon Arab oil there is a greater possibility of a larger shift in policy when subjected to pressure from the Arab oil-producers. This is reflected in Figure 2, by the foreign policy shifts of the European countries and Japan. This is the

Figure 2

Tentative model for reactions to the oil crisis

result of the strong bargaining position from which the Arab bloc can negotiate. The allied hypothesis maintains that the lower the dependence on Arab oil, the less likelihood there is of a large shift in policy. This is reflected in Figure 2, by the negligible foreign policy shifts of the Netherlands, South Africa, and the United States as a result of the Arab oil-pressure. The country under pressure has a greater freedom of choice as a result of the weaker Arab bargaining position. The exact definition of 'dependence on Arab oil' provides an area for further research. From my own research it appears that a fairly accurate measure of this variable is provided by OAPEC imports. I have used this calculation in Figure 2, and I have also taken account the special case of the Netherlands which re-exports much of its imported

OAPEC crude as refined products.

The model, however, is not an absolute model as the plotting of the policy changes made by the countries under the Arab oil-pressure shows. There are obviously other factors which in certain cases, must also be taken into consideration when trying to explain or predict foreign policy behaviour. As Figure 2 shows, there are exceptions to the model. Denmark, for instance, has not made quite as significant a foreign policy shift as one might expect from a country with about a 45 percent reliance on OAPEC oil for its primary energy production. However, an additional variable here may well be the fact that during the second World War, Denmark managed to save its Jews, a unique feat in Nazi-occupied Europe.⁷ From the model Japan appears to have over-reacted somewhat when subjected to the Arab oil-pressure. However, this is not true when one investigates the distribution of oil consumption in the Japanese economy. Industry accounts for about 46 percent of Japan's oil consumption. This is a comparatively high proportion (see Table 20) and, because of the essential nature of industry to the Japanese economy, means that Japan has a much lower 'oil saving capacity'. A rough assessment of a 'tolerable' cut in oil supplies would be, for each country: (a) directly proportional to the share of non-industrial uses in total energy requirements, and (b) inversely proportional to the share of oil in total primary energy requirements. On this basis, countries could be ranked according to the following ratio: 8

$$\frac{\text{non-industrial use of energy}}{\text{total use of oil in the economy}}$$

Table 20

DISTRIBUTION OF OIL CONSUMPTION (%)

	Industry	Transport	Residential/ Commercial	Non- Energy
United States	14.4	52.9	22.4	10.3
Japan	46.2	21.6	23.2	9.0
United Kingdom	41.1	39.0	18.1	7.8
Germany	32.4	25.7	34.2	7.7
Italy	36.1	25.5	26.0	12.4
Belgium	35.8	25.9	29.4	8.9
Netherlands	19.1	41.6	20.2	19.1
New Zealand	38.0	47.0	15.0	

SOURCES: OECD Economic Outlook, December, 1973, and
Hogg, op.cit., pp.90-92

Table 21

'OIL SAVING CAPACITY'

Japan	0.6
Italy	0.7
Belgium	0.8
United Kingdom	0.9
Germany	1.0
Netherlands	1.1
New Zealand	1.1
United States	1.4

SOURCES: OECD Economic Outlook, December, 1973, and
Hogg, op.cit., pp.90-92

The results in increasing order of 'oil saving capacity' are shown in Table 21. As a result Japan tended to feel the Arab oil-pressure more quickly than most countries and hence Japan's swift transfer of

diplomatic allegiance.

Obviously, my model could be refined further but I still feel that it provides a more realistic tool with which to explain the foreign policy behaviour of states during the oil crisis than the small-state theories do. I do not deny that a small state may possess a weak bargaining position, such as that experienced by New Zealand during the oil crisis, but I would deny that a small state necessarily finds itself in a weak bargaining position compared with a larger state. In other words, I do not consider that size is the key factor influencing foreign policy behaviour. I believe that, in a conflict situation, bargaining strength is the key variable. I feel that my research has added weight to this hypothesis, and suggest that the proposed alternative model may well prove a more accurate guide for the prediction of foreign policy behaviour in any future Arab oil crisis than the existing small-state theories provide.

- 1) Strategic Survey 1973, (International Institute for strategic Studies), p.36.
- 2) Useful articles on Japan and the oil crisis include R.P.Sinha, 'Japan and the oil crisis', in the World Today, August, 1974, pp.335-344; 'Japan', in The Australian Financial Review, 11 November, 1974, pp.15-54; 'Japan', a special feature in the New Zealand Economist, December, 1974; and Hartshorn, op.cit., pp.363-379.
- 3) Strategic Survey 1973, p. 36.
- 4) See Hartshorn, op.cit., p.369.
- 5) Ibid., p.367.
- 6) T.Schelling, The Strategy of Conflict, (New York, Oxford University Press, 1971).

7) Ibrahim Sus, 'Western Europe and the October War',
in Journal of Palestine Studies, no.11, 1974, p.71.

8) If:

NIE = non-industrial use of energy

TE = total energy requirements

TO = total oil requirements

(a) is equal to $\frac{NIE}{TE}$

(b) is equal to $\frac{TO}{TE}$

The amount of 'tolerable' cuts would proportional
to:

$$\frac{NIE}{TE} \div \frac{TO}{TE} = \frac{NIE}{TO}$$

It should be stressed that this is a very rough
relative indicator of how countries rank in this
particular aspect, but it can in no way be interpreted
as an absolute measure.

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APPENDIX

SECURITY COUNCIL RESOLUTION, 22 NOVEMBER 1967, (SC 242)

The Security Council,

Expressing its continuing concern with the grave situation in the Middle East,

Emphasising the inadmissibility of the acquisition of territory by war and the need to work for a just and lasting peace in which every State in the area can live in security,

Emphasising further that all Member States in their acceptance of the Charter of the United Nations have undertaken a commitment to act in accordance with Article 2 of the Charter,

1. Affirms that the fulfilment of Charter principles requires the establishment of a just and lasting peace in the Middle East which should include the application of both the following principles:
 - (i) Withdrawal of Israel armed forces from territories occupied in the recent conflict;
 - (ii) Termination of all claims or states of belligerency and respect for and acknowledge of the sovereignty, territorial integrity and political independence of every State in the area and their right to live in peace within secure and recognised boundaries free from threats or acts of force;
2. Affirms further the necessity
 - (a) For guaranteeing freedom of navigation through international waterways in the area;
 - (b) For achieving a just settlement of the refugee problem;
 - (c) For guaranteeing the territorial inviolability and political independence of every State in the area, through measures including the establishment of demilitarised zones;
3. Requests the Secretary-General to designate a Special Representative to proceed to the Middle East to establish and maintain contacts with the States concerned in order to promote agreement and assist efforts to achieve a peaceful and accepted settlement in accordance with the provisions and principles in this resolution;
4. Requests the Secretary-General to report to the Security Council on the progress of the efforts of the Special Representative as soon as possible.